



ASX ANNOUNCEMENT

PRELIMINARY FINAL REPORT

The Directors of Minara Resources Limited are pleased to announce a net annual profit of \$43.0 million for the financial period ended 31 December 2005.

A press release covering the results is attached.

The information contained in the attached Appendix 4E is lodged with the Australian Stock Exchange under Listing Rule 4.3A

ENDS

APPENDIX 4E

**ASX Preliminary Final Report
Year Ended 31 December 2005**

Lodged with the ASX under Listing Rule 4.3A

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APPENDIX 4E

1. Details of the reporting period and the previous corresponding period.

The current reporting period is 1 January 2005 to 31 December 2005
The previous corresponding comparative period is 1 January 2004 to 31 December 2004

2. Results for announcement to the market

Revenue from ordinary activities	Down	2.2%	to	\$361.4 million
Profit/(loss) from ordinary activities after tax attributable to members	Down	36.7%	to	\$67.7 million
Net profit/(loss) for the period attributable to members	Down	75.0%	to	\$43.0 million

Dividends (distributions)	Amount per security	Franked amount per security
Proposed dividend in relation to this period	5¢	0¢
⁺ Record date for determining entitlements to the dividend	10 March 2006	

	31 December 2005	31 December 2004
NTA Backing Net tangible asset backing per share	\$1.07	\$1.08

MINARA RESOURCES LIMITED AND ITS CONTROLLED ENTITIES
ACN 060 370 783

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005

The Directors present their report, together with the financial report of Minara Resources Limited ("the Company") and the consolidated financial report of the Consolidated Entity, being the Company and its controlled entities, for the period ended 31 December 2005, together with the auditor's report thereon.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial period, serving at the date of this report are:

James Campbell
Peter Johnston
John Morrison
Ivan Glasenberg
Willy Strothotte
Malcolm Macpherson

PRINCIPAL ACTIVITIES

The principal activities of the Company during the period were the operation of the Murrin Murrin Nickel/Cobalt Project (the "Project" or "the Joint Venture" or "Murrin Murrin"), exploration for nickel directly and through Joint Ventures, and Research & Development of nickel/cobalt heap leaching.

DIVIDENDS

Two 5 cent per share dividends have been paid since the end of the previous financial year, on 18 March and 23 September 2005, totalling \$46.5 million for the year.

REVIEW OF OPERATIONS AND RESULTS

Financial Results (\$million)

	12 Months Ended 31 December 2005	<i>12 Months Ended 31 December 2004 (i)</i>	<i>6 Months Ended 31 December 2005</i>	<i>6 Months Ended 30 June 2005</i>	<i>6 Months Ended 31 December 2004 (ii)</i>	<i>6 Months Ended 30 June 2004 (iii)</i>
Revenue from operations	361.4	369.5	177.5	183.9	197.9	171.6
Gross profit	67.7	107.0	35.4	32.3	72.0	35.0
Net profit after tax	43.0	172.1	26.4	16.6	56.3	115.8
<i>Nickel sales (mt)</i>	16,656	16,376	8,708	7,948	8,448	7,928

- (i) The full year to 30 June 2004 was audited by KPMG, however, the full year to 31 December 2004 was not specifically audited due to a change in year end to December for the six month period from 1 July 2004. This split is shown for comparative purposes only.
- (ii) Reported under A-IFRS
- (iii) Reported under A-GAAP. Included an impact on profit of \$84.4 million (net) arising from the Fluor settlement agreement reached on 5 May 2004.

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DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005

The Company recorded a consolidated profit from ordinary activities after tax of \$43.0 million for the financial period ended 31 December 2005. The current period result is derived from 12 months of operations.

The previous financial period was for the six months ended 31 December 2005.

The profit from ordinary activities for the financial year ended 31 December 2005 of \$43.0 million was affected by the impact of statutory shutdowns and the allowances and write-downs totalling \$14.8 million as well as a loss on sale of the decommissioned mining fleet of \$4.7 million.

Metal prices in the reporting period ended 31 December 2005 were 2.6% higher than in the previous calendar year when expressed in Australian dollars and 6.4% higher in US dollars. Metal despatched for sale was 0.5% higher than in the previous 12 months.

Shareholders equity (consolidated) decreased from \$498.5 million at 31 December 2004 to \$497.1 million at 31 December 2005 after taking into account the payment of dividends totalling \$46.5 million.

Health, Safety & Environment

The company recorded an increase in the lost time injury frequency rate from 2.21 to 7.07 occurrences per million manhours worked in the 12 month financial period to 31 December 2005 reflecting a decline in safety performance from the previous financial year predominantly from the pre, during and post period of the statutory maintenance shut in April/May. Outside of this period the performance was similar to last year.

The Murrin Murrin site continues to satisfy requirements under the environmental and occupational health regulations and actively seeks the identification and implementation of best practice strategies. Further detail is provided below under the heading Environmental Regulation.

The Murrin Murrin Aboriginal Environmental Liaison Committee (MMAELC), established in 1998, continues to meet on a regular basis to discuss and enact environmental initiatives on behalf of the local Aboriginal communities.

Operations

Production at Murrin Murrin for the 12 months to 31 December 2005 was 28,240 tonnes of nickel, and 1,750 tonnes of cobalt. The Company's share is 60%. Nickel production was higher than production in the previous twelve months (to 31 December 2004) of 27,950 tonnes but cobalt was lower than the 1,983 tonnes previously achieved.

After a record for production in the March quarter, the June quarter production was reduced. The most significant impact was the scheduled biennial three-week statutory maintenance shut-down which began in April however the restart from the shutdown was delayed by additional unscheduled remedial welding inside vessels in the hydrogen sulphide plant, which were identified during the shutdown. In late June an acid spill occurred, resulting in significant piping damage that limited acid plant production in July and hence nickel/cobalt leach autoclave throughput. Plant performance in August, September and October was encouraging before two planned maintenance events and restart issues in the hydrogen sulphide plant in November. December was a record month for production. The slow, but steady improvement in the overall production profile particularly at the front end, is encouraging but maintenance will be the dominant issue at the plant over the next 12 months. As the front end performance has improved, the maintenance focus has shifted to the utilities area of the plant, specifically the acid plant and hydrogen sulphide plant.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005

Capital Program

A complete new mining fleet comprising 26 items of Caterpillar and Hitachi equipment was progressively delivered to site over the course of the year and the corresponding existing mine fleet retired. The fleet replacement and new tyre contracts have guaranteed equipment availability at a time when the industry is experiencing extremely tight market conditions and non availability of earth moving equipment.

Improved operational performance in mining and also in the front-end of the plant is now being demonstrated as the benefits of the capital spending program implemented over the last two years are now being realised. A number of additional capital projects to improve plant reliability and capability were completed in the year.

Heap Leach

Minara is accelerating its research and development (R&D) program on a nickel/cobalt heap leach project. The company is investing \$12 million over two and a half years to develop a project to initially process ore rejects ("scats"), a by-product of processing activities.

The expanded R&D project builds on five years of research and development by Minara. A demonstration nickel/cobalt heap leach plant will be constructed during 2006 at a cost of approximately of \$25 million. The demonstration plant has been designed to have a capacity to produce 2,000 tonnes of nickel and 120 tonnes of cobalt per annum from current scats stockpiles. If the R&D programme is successful the heap leach demonstration plant will be expanded and extended to treat stockpiled ores as well as scats material.

The heap leach technology is attractive because it offers the opportunity to exploit low grade ores in a cost effective manner and will offer a second processing stream with low risk known technology.

Exploration

Exploration for nickel sulphide mineralisation commenced in two new joint ventures during the reporting period. A number of targets have been identified and drilling undertaken. Evaluation for nickel sulphides continued at Weld Range and Mt Margaret with drilling planned in the next year.

Opportunities to treat nickel sulphide concentrates through the processing plant will continue to be pursued with exploration programs with the company's joint venture partners.

Acquisitions

Minara's acquisition of the Sons of Gwalia nickel tenements and the Toomey Hill tenement is part of a longer-term strategy to secure near to mine tenements and access to potential nickel sulphide fields. The Coglia Well project, 165 kilometres east of Murrin Murrin, with a nickel laterite Inferred Resource of 2 million tonnes at 1.52% Ni and 0.26% Co at a 1.3% Ni cut-off has been merged into a joint venture with the adjacent Yilgarn Mining Limited holdings to create a 60 km long tenement holding which offers significant nickel sulphide prospectivity in addition to nickel laterite resource. Further, as already indicated by Yilgarn Mining Limited in their release on 21 July 2005, the Irwin Hills-Coglia Well tenements offer the prospect of producing an upgraded cobalt product at reasonable cost. The potential for an increase in cobalt production from Murrin Murrin from heap leaching this upgraded cobalt product is being investigated.

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Metal Markets

China continues to be the dominant driver of nickel metal demand with economic growth in China driving strong stainless steel consumption, the major end-use for nickel. Elsewhere and particularly in Europe, nickel demand was weak, and this was reflected in a rise in London Metal Exchange stocks particularly in the second half of the year with stocks exceeding 36,000 tonnes by year end, a considerable increase from the historic low of 4,926 tonnes reached on 13 May 2005. Nickel prices tracked the movement in inventories, rising to average US\$7.68/lb in May before falling to \$US5.22/lb on 1 November. At year end prices were again rising, standing at \$US6.07/lb. Cobalt prices declined throughout the year from \$18/lb down to \$11.70/lb by year end.

A detailed operations report will be given in the Chairman's and Chief Executive Officer's report which will accompany the annual report.

Corporate

Tax – R&D Claim

In March 2005 the Australian Industry Research & Development Board made a favourable determination in respect of the Joint Venture's Research and Development tax concession claim which has been outstanding for over five years. The tax benefit of the determination was \$22.6 million.

As a result of this determination, the Minara group carry forward tax loss position has been assessed at approximately \$339 million at 31 December 2005.

Shareholdings

At the date of this report, the major shareholder of the Company was Glencore International AG with a 50.45% shareholding. Approximately 20% of the Company's issued capital was held by Australian institutional investors, and a further 14% held by international institutional investors.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial period were as follows:

Glencore Dispute

Minara reached a commercial resolution with Glencore in respect of alleged breaches by Minara and related bodies corporate of Joint Venture agreements arising out of the construction phase of the Murrin Murrin Nickel Cobalt plant. The details of these disputes have been disclosed as a contingent liability in Minara's accounts since 1998.

Under the settlement, Glencore discontinued its US\$ 36 million claims, inclusive of interest, against the Minara Companies.

Minara agreed to extend the area which is subject to the Murrin Murrin Joint Venture (Minara 60%) from a radius of 60km to 200km from the Murrin Murrin plant.

EVENTS SUBSEQUENT TO BALANCE DATE

At the date of this report, the Board of Directors resolved to declare a final dividend of 5 cents per share which will total approximately \$23 million. This dividend will be unfranked and paid on 24 March 2006. The record date will be 10 March 2006.

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Other than as noted elsewhere in this report, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

The Company will continue to focus on improving the performance of the Project with a view to delivering maximum value to all shareholders.

ENVIRONMENTAL REGULATION

The Company's environmental management monitoring and reporting obligations are imposed under local, state and commonwealth legislation. The key legislation includes the Western Australian Mining Act 1978 and Environmental Protection Act 1986 which are regulated by the Department of Minerals and Energy and the Department of Environmental Protection respectively. All environmental performance obligations are monitored by the Audit and Risk Management Committee and carried out by the on site environment department. The Company has a policy of ensuring that all activities are in accordance with regulatory requirements and are continually improving.

There was one environmental incident reported to regulatory authorities during the period. This was the acid plant spill which occurred at the end of June 2005.

INFORMATION ON DIRECTORS

The Directors of the Company at any time during or since the end of the financial period, including the qualifications and experience of Directors serving at the date of this report are:

James Campbell BSc (QU Belfast), MA (Cantab) - Age 56
Chairman, Independent Non-Executive Director

Non-Executive Director since September 1999, Mr Campbell was appointed Chairman in November 2001. Mr Campbell is also chairman of the Remuneration Committee and of the Nominations Committee.

Mr Campbell joined Anglo American Corporation of South Africa Limited ("AAC") in 1975 as a management trainee and moved into the coal division in 1976 and worked there until 1993 when he left as Managing Director to take up the position of Managing Director De Beers Industrial Diamond Division, a position he held until 1998, when he returned to AAC as Chairman of Amcoal. Mr Campbell was appointed a Director on 22 September 1999 as a nominee of the Anglo American plc group and became an independent member of the Board in October 2001 following his resignation from Anglo American plc.

Current Directorships

Director: EvrazGroup S.A., a Luxembourg company with assets in Russia, Italy and the Czech republic.

Former Directorships

Former Director: Anglo American Corporation of South Africa Limited, De Beers Centerary AG, Anglogold Ltd and American Platinum Ltd

Former Director: Anglo American plc- Executive Director with responsibility for base metals and coal. Mr Campbell left Anglo American plc in 2001.

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Peter Johnston BA, FAusIMM – Age 54
Chief Executive Officer and Managing Director

Chief Executive Officer since 28 November 2001, Mr Johnston was formerly employed by WMC Ltd from 1993 to 2001. During that period he held the position of Executive General Manager and at various times was responsible for Nickel and Gold Operations, Olympic Dam Operations, Queensland Fertilizers Ltd and Human Resources. He has also held senior positions with Lion Nathan Australia and Alcoa of Australia Limited. Mr Johnston is an Executive Council member of the Chamber of Minerals and Energy. He is a past President of the Chamber of Minerals and Energy and immediate past President of the Nickel Development Institute.

Ivan Glasenberg B.Acc, MBA (USC), CASA (Sth Africa) - Age 49
Non-Executive Director

Non-Executive Director since December 2000 as a nominee of Glencore, Mr Glasenberg is also a member of the Remuneration Committee and the Nominations Committee.

Mr Glasenberg joined Glencore International AG ("Glencore") in 1984 and was appointed Chief Executive Officer of Glencore from 2 January 2002. He became the Head of Coal in 1990 after having worked in the coal department in South Africa for three years and in Australia for two years. He managed Glencore's Hong Kong office during the period 1988-1989. Prior to joining Glencore, he worked for five years at Levitt Kirson Chartered Accountants. Mr Glasenberg has been a Director of Glencore and a member of its Board since June 2001.

Willy Strothotte - Age 61
Non-Executive Director

Non-Executive Director since December 2000 as a nominee of Glencore, Mr Strothotte is a member of the Audit & Risk Management Committee.

Mr Strothotte is Chairman of Glencore International. From 1961 to 1978 Mr. Strothotte held various positions with responsibility for international trading in metals and minerals in Germany, Belgium and the USA. In 1978 Mr. Strothotte joined Glencore International, taking up the position of Head of Metals and Minerals in 1984.

Mr Strothotte was appointed Chief Executive Officer of Glencore in 1993 and held the combined positions of Chairman and Chief Executive Officer from 1994 until 2001.

Current Directorships
Director and Chairman: Xstrata plc since its listing in March 2002
Director: Century Aluminium Corporation.

Former Directorships
Former Director and Chairman: Xstrata AG

John Morrison BE(Hons), MBA, MAusIMM, MAICD - Age 43
Independent Non-Executive Director

Non-Executive Director since December 1999, Mr Morrison is currently Chairman of the Audit and Risk Management Committee and a member of the Remuneration Committee.

Mr Morrison is an Executive Director of Grant Samuel, a leading independent investment bank. He has broad experience in the finance and natural resources industry and since 1990 has been involved in providing advice to corporations in mergers, acquisitions, valuations, restructurings,

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financing and capital management. Prior to this he worked in engineering and construction for Clough Ltd in Australia and Sir Robert McAlpine & Sons in the United Kingdom.

Current Directorships

Director and Chairman: HFA Asset Management Limited and HFA Accelerator Plus Limited.

Malcolm Macpherson BSc (Canterbury), Cert.Acctg, FAICD, FAusIMM, FTSE – Age 61
Independent Non-Executive Director

Non-Executive Director since April 2002, Mr Macpherson is a member of the Audit and Risk Management Committee and the Nominations Committee.

Before joining the Board, Mr Macpherson was Managing Director and Chief Executive Officer of Iluka Resources Limited, a major West Australian resources company. In addition to his previous board appointments, Mr Macpherson served as Senior Vice President of the Minerals Council of Australia in 2000 and as President of the Chamber of Minerals & Energy (W.A) in 1990 – 1994.

Current Directorships

Director: Portman Limited

Director: Titanium Corporation Inc.

Director and Chairman: Azumah Resources Limited.

Former Directorships

Former Director: Iluka Resources Limited (Managing Director and Chief Executive Officer)

Former Director and Chairman: Western Power Corporation

Former Director and Deputy Chairman: Eltin Limited

Steven Isaacs B.Com, B.Acc, MBA CASA(South Africa) - Age 42
Alternate

Alternate Non-Executive Director for Mr W Strothotte since December 2000.

Mr Isaacs joined Glencore International AG ("Glencore") in 1995 to focus on nickel and copper project development. Since 2003 Mr Isaacs has been responsible for Glencore Finance AG, a financial markets investment vehicle. Prior to joining Glencore, Mr Isaacs worked for Investec Bank in the corporate finance division. Mr Isaacs is a non-executive director of Milacron Inc.

COMPANY SECRETARY

John Quayle BSc (Hons)(Canterbury), MAF (Macquarie), DBA – Age 55

Mr Quayle was appointed Company Secretary on 21 January 2002 and is also secretary to the various Board subcommittees. He also holds management responsibilities for investor relations, government relations, marketing, and exploration. Prior to joining the company Mr Quayle was employed by WMC Ltd from 1999 to 2001 in a strategic planning role principally in nickel but also in copper and fertilizers; and prior to that with Pasminco, responsible for strategic planning and acquisitions, and sales and marketing activities.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2005

MEETINGS OF DIRECTORS

The number of Directors' meetings attended by each of the Directors of the Company during the year from 31 December 2004 to 31 December 2005 are shown in the following table. The Nominations Committee did not meet during the course of the year.

Directors	Directors' Meetings		Audit & Risk Mgt Committee Meetings		Remuneration Committee Meetings	
	Attended	Eligible to Attend ⁽¹⁾	Attended	Eligible to Attend ⁽¹⁾	Attended	Eligible to Attend ⁽¹⁾
J Campbell	8	8			1	1
P Johnston	8	8				
J Morrison	8	8	4	4	1	1
I Glasenberg	4	5			2	2
W Strothotte	4	5				
M Macpherson	8	8	3	4		
S Isaacs ⁽²⁾	1	1	4	4		

(1) Reflects the number of meetings held during the time the Directors held office during the year that the respective Director was eligible to attend as a member.

(2) Directors' meetings attended by Mr S Isaacs were in his capacity as an alternate Director for Mr W Strothotte.

DIRECTORS' REMUNERATION

Details of remuneration paid to Directors are set out in the attached Remuneration Report.

DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the Company, as notified by the Directors to the Australian Stock Exchange Limited ("ASX") in accordance with s205G(1) of the Corporations Act, as at the date of this report is as follows:

Directors	Ordinary Shares	Options
J Campbell	-	-
P Johnston	1,333,333	-
J Morrison	-	-
I Glasenberg ⁽¹⁾	234,641,773	-
W Strothotte ⁽¹⁾	234,641,773	-
M Macpherson	20,000	-

(1) Mr Glasenberg's and Mr Strothotte's relevant interests are an indirect interest in 234,641,773 shares held by Glencore of which both are Directors.

OPTIONS

Options Issued

During the financial period, no new options were issued, nor Performance Rights created, over unissued shares in the Company.

Options Exercised

During the financial period, 1,600,003 options over unissued shares in the Company were exercised.

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DIRECTORS' REPORT
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Options Expired

Performance Rights with an entitlement to 371,724 options over unissued shares in the Company granted to 23 senior executives and Mr Peter Johnston, the Chief Executive Officer, under contracts of employment lapsed during the financial period as a result of performance criteria not being met under the Long Term Incentive Plan.

Performance Rights with an entitlement to 199,880 options over unissued shares in the Company granted to 15 senior executives under contracts of employment lapsed during the financial period following their cessation of employment with the Company.

Options on Issue

At the date of this report unissued ordinary shares under option are:

Expiry Date	Exercise Price	Number of Options
28 November 2006 (i)	\$37.30	666,667

- (i) These options were issued in the 2001/02 financial year to the former Chief Executive Officer of the Company, Mr Andrew Forrest as part of a termination package.

At the date of this report the number of Performance Rights with a potential entitlement to options over unissued ordinary shares under option are:

Vesting Date	Expiry Date	Exercise Price	Number of Options
1 July 2006 (ii)	30 June 2008	\$0	184,686

- (iv) These options were issued 23 senior executives and Mr Peter Johnston in the prior financial year as part of a contract of employment. If the performance criteria are satisfied, on application of the Performance Rights, the options will be granted for nil consideration and are exercisable on or before 30 June 2008 in all or part of the entitlement.

These options and Performance Rights do not entitle the holder to participate in any share issue of the Company or any other body corporate and, in the event of any consolidation of the share capital of the Company, will be subject to proportionate consolidation in accordance with the ASX Listing Rules.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During or since the end of the financial period the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Company or of a related body corporate.

The Company has entered into a Directors' and Officers' Liability insurance policy. The policy provides against certain liabilities (subject to exclusions) for persons who are or have been officers of the Company or of a related body corporate. The insurance policy does not provide details of the premiums paid in respect of individual officers of the Company.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as such disclosure is prohibited under the terms of the policy.

DIRECTORS' REPORT
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NON-AUDIT SERVICES

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

The Board of Directors has considered the position and, in accordance with the advice received from the Audit & Risk Management Committee 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 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 Audit & Risk Management Committee to ensure they do not impact the integrity 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 Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

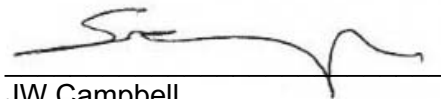
LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 11 and forms part of the Directors' report for the year ended 31 December 2005.

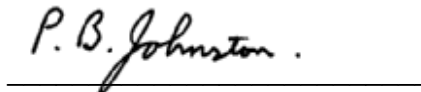
ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that class order, amounts in the financial report have been rounded off to the nearest one thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of Directors.



JW Campbell
Chairman



PB Johnston
Chief Executive Officer and Managing Director

Perth, 23rd day of February 2006

The Directors
Minara Resources Limited
Level 4, 30 The Esplanade
PERTH WA 6000

23 February 2006

Dear Directors

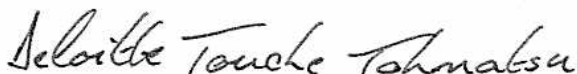
AUDITOR'S INDEPENDENCE DECLARATION TO MINARA RESOURCES LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Minara Resources Limited.

As lead audit partner for the audit of the financial statements of Minara Resources Limited for the year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



AT Richards
Partner
Chartered Accountants

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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REMUNERATION REPORT

REMUNERATION COMMITTEE

The role of the Remuneration Committee is to:

- review and determine, on the basis of independent external advice, the remuneration of the Chief Executive Officer and Managing Director;
- review and ratify CEO recommendations on the remuneration of executive management;
- agree performance targets to be set for each forthcoming year and the procedures for administering executive remuneration;
- determine the fees payable to the Chairman and other non-executive Directors in accordance with industry standards and external advice;
- review short and long term incentive based schemes including any Option and/or Employee Share Plans;
- review and approve remuneration strategy and policies; and
- brief the Board on remuneration outcomes.

All of the members of the Committee are non-executive Directors. The members at the date of this report are Mr Campbell (Chairman), Mr Glasenberg and Mr Morrison. The Company Secretary acts as secretary to the Committee.

The Committee met twice during the reporting period to 31 December 2005. Mr Johnston, Managing Director and Chief Executive Officer, attended the meetings by invitation and provided advice on request. He was not present when matters associated with his own remuneration were being discussed. The Committee also sought advice from external consultants including Hay Group.

The Committee complies with the Principles of Good Corporate Governance and Best Practice Recommendations set out in the Listing Rules of the Australian Stock Exchange.

Remuneration Policy

The Company remuneration policy is to ensure remuneration packages properly reflect each person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest calibre.

Non-Executive Directors' Remuneration

Article 12.13 of the Company's Constitution provides that the Directors (excluding any Directors who are employees of the Company) may be paid such remuneration as is determined from time to time in general meeting, and that remuneration accrues from day to day. The remuneration may be divided among the Directors in such proportion as they from time to time agree and, in default of agreement, equally. ASX Listing Rule 10.17 provides that the Company must not increase the total amount of directors' fees payable by it or any of its controlled entities without the approval of holders of its ordinary securities.

At the Company's Annual General Meeting held on 26 November 2003, members approved a resolution to the effect that the maximum amount of directors' fees payable to non executive Directors was fixed at \$800,000 in total, for each twelve month period commencing 1 July in any year until varied by Ordinary Resolution of Members.

During 2005 the level of remuneration, or base fees, for non-executive Directors and the non-executive Chairman was increased by approval of the Remuneration Committee. Remuneration for non-executive Directors was increased from \$65,000 to \$70,000 per annum, effective 1 July 2005. Remuneration for the non-executive Chairman was increased from \$180,000 to \$190,000 per

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REMUNERATION REPORT

annum, effective 1 July 2005. Superannuation contributions are also paid by the Company on behalf of the non-executive Directors at the rate of 10% of base fees.

Non-executive Directors do not participate in any cash bonus, options or share plans that may be developed for Executives. From 1 July 2004, additional fees of \$5,000 per annum are payable to non-executive Directors for participation on the Board Audit & Risk Management Committee. Other fees or allowances may be payable in special circumstances as agreed by the Board. Executive Directors are not paid Directors' fees.

Retirement benefits for current non-executive Directors are expressed as multiples of the final year average base directors' fees but have been capped at entitlements accrued as at 30 June 2004. The benefit payable on retirement for Mr Campbell is capped at 1.6 times final year of service base fee; for Mr Morrison it is 1.5 times; and for Mr Macpherson it is 0.7 times. Retirement benefits are only paid following approval by the Board. Non-executive Directors appointed subsequent to 1 July 2004 do not receive retirement benefits.

Details of the nature and amount of each major element of the emoluments of each non-executive Director of the Company for the reporting period to 31 December 2005 are:

Non-Executive Directors

Financial year to 31 December 2005	Base Fee	Committee Fees	Superannuation	Total Compensation
James Campbell (a)	185,000	-	18,500	203,500
John Morrison	67,500	5,000	7,250	79,750
Malcolm Macpherson	67,500	5,000	7,250	79,750
Ivan Glasenberg (b)	-	-	-	-
Willy Strothotte (b)	-	-	-	-

(a) Mr Campbell received his base Directors fees in the form of superannuation contributions.

(b) Messrs Glasenberg and Strothotte elected not to receive directors' fees as they are nominee Directors of major shareholders.

Executive Directors and Senior Executives' Remuneration

The Board and Remuneration Committee recognises that the Minara companies must offer competitive remuneration to attract, retain and motivate people of the highest calibre.

The remuneration package for executives and senior management comprises base salary, short and long-term incentive plans and retirement benefits. The survival and success of Minara will be heavily dependent on the ability of the executive and senior management team at Minara to deliver results over the short to medium term. The variable (at risk) pay structure for this group assists with the following objectives:

- Provide a focus on the key business success factors for the next 12 – 18 months
- Provide an opportunity for executives to share in the success of Minara
- Aid in the retention of critical executive skills in a challenging work environment
- Provide competitive overall reward for successful performance while limiting the growth in fixed pay.

Details are outlined below.

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Base Salary

Base salaries are determined by reference to the size and influence of the role, and individuals' performance and experience. The Committee obtains market data to benchmark salary levels in the resources, refining, and petrochemical industries to determine base salaries. Base salaries are reviewed in June each year.

Short Term Incentive Scheme

Short-term incentive (STI) rewards by way of a cash bonus are payable, depending on performance, for meeting or exceeding personal key performance indicators in relation to corporate objectives and specific operational targets. It provides focus for the management team and ensures they address those issues critical to the future of Minara.

The STI provides a cash incentive payment ranging up to 60% of the base salary for management roles payable quarterly (from 1 January 2005) during the year. Specific performance targets are set for each manager covering financial, production, business improvement and other goals relevant to, and strongly influenced by, the particular manager. Site management are generally focussed on production and safety goals while the corporate management goals are more related to corporate financial and specific project activities. The targets are set such that payments will increase progressively for achievements above a minimum acceptable threshold, up to the maximum 20%, 40% or 60% payment for achievement of challenging stretch goals. If performance for an individual is below the threshold level no STI payment will be made.

The Hay Group has advised that the maximum incentive opportunity for these jobs is competitive when compared to market practice and recognises the critical issues facing Minara at present.

Long Term Incentive Scheme

The Long Term Incentive (LTI) plan provides an opportunity to link part of the management reward to shareholder returns over an extended period. The Minara Executive LTI Scheme has the following features:

- equity-based reward scheme designed to link management performance to shareholder returns
- granted to selected members of the management team only from time to time
- allocation is determined in line with competitive market practice
- vesting conditions include a minimum of two year's service from date of grant
- performance conditions are applied as appropriate
- maximum life of four years from the date of grant.

The breadth of the Scheme encompasses the management levels of key decision-makers in the Company. The application of the Scheme allocation is by way of performance rights to receive share options. The number of performance rights is determined after the end of the financial year, subject to meeting or achieving performance targets, with performance rights able to exercised and options issued 12 months later. Refer under the section *Chief Executive Officer Remuneration* for further detail.

Performance Rights reserved on 8 October 2004 under the Minara Executive LTI Scheme allowed executives (excluding Mr Johnston) to receive a maximum of 576,915 options over unissued shares in the Company. On 12 November 2004, shareholders resolved to grant to Mr Johnston, the Chief Executive Officer, Performance Rights to receive a maximum of 179,375 options over unissued shares in the Company. Performance Rights with an entitlement to 571,604 options over unissued shares in the Company granted to senior executives and the Chief Executive Officer, under contracts of employment, lapsed during the financial period as a result of performance

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criteria not being met under the Long Term Incentive Plan or the resignation of the managers concerned.

In the application of the Minara Executive LTI Scheme in 2006, the actual number of performance rights/options that may be granted to executives will depend on ranking the performance of the Company against its peer group of resource companies over the period 1 January 2006 to 31 December 2006, as measured by the Company's Total Shareholder Return performance. **Total Shareholder Return (TSR)** is defined as *'share growth plus all other returns or payments to shareholders, i.e. dividends'* and is essentially a measure of the average movement in shareholder return over the period 1 January 2006 to 31 December 2006.

The following table lists the performance targets that apply and the weighting given to their achievement in determining the number of Performance Rights available to executives.

Performance Target	Below 50 th Percentile	Ranking at or above 50 th percentile	Ranking at or above 60 th percentile	Ranking at or above 75 th percentile
TSR	Nil	50%	70%	100%

If the performance criteria are satisfied and not before 1 January 2008, on application of the Performance Rights, the options will be granted for nil consideration and are exercisable on or before 31 December 2010 in all or part of the entitlement. No funds will be raised by the Company on the grant of the Performance Rights or on the exercise of the options.

The Performance Rights do not attract the benefits of share ownership including dividend or voting entitlements prior to vesting.

ASX best practice recommendation 9.4 recommends companies seek shareholder approval of equity-based reward schemes for executives. The Company's current equity-based reward scheme was introduced in 2003, with identical terms (other than a longer period until exercise) as for the options for the Chief Executive Officer which were extensively disclosed to shareholders in the Notice of Meeting for the 2003 Annual General Meeting and again, including performance targets, in the Notice of Meeting for the 2004 Annual General Meeting. It is not proposed to otherwise present the scheme to shareholders for approval.

Service Agreements

The remuneration and other terms of employment for the Chief Executive Officer is formalised in a service contract. Under this agreement Mr Johnston is eligible for performance-related cash bonuses, other benefits including a car allowance, and, if approved by shareholders, grant of share options as part of an LTI scheme. If the Company does not agree to renew or extend Mr Johnston's employment contract beyond the existing term of his contract, being 31 October 2006, Mr Johnston's employment will cease and the Company shall pay to Mr Johnston the amount of \$1.5 million. In such circumstances, Mr Johnston shall retain any options or shares provided to him under his employment contract. These payments and benefits are not payable if Mr Johnston's employment contract is terminated prior to 31 October 2006. If Mr Johnston's employment contract is terminated by the Company between 3 December 2004 and 31 October 2006, the Company is required to pay Mr Johnston an amount of \$1.5 million. In such circumstances, Mr Johnston shall also be entitled to exercise any options issued to him and which are capable of vesting over the 12 month period following the termination date.

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REMUNERATION REPORT

Other than Mr Johnston, all management and other employees are employed under standard employment contracts with notice periods by either party of three months for senior executives and one month otherwise.

Chief Executive Officer Remuneration

At the Annual General Meeting held on 12 November 2004, shareholders resolved to authorise the Board of Directors to grant the right to Mr Johnston to apply for up to a maximum of 179,375 performance rights exercisable into options over unissued shares in the Company. The extent of the final allocation that will be made to Mr Johnston will be determined in July 2006 on, generally, the same principles as the offer made to senior employees under Minara's Executive LTI Scheme, as disclosed, including performance targets, in the Notice of Meeting for the 2004 Annual General Meeting. Due to a failure to meet various performance targets, the maximum number of Performance Rights remaining available to Mr Johnston at the date of this report, with a potential entitlement to options over unissued ordinary shares under option are 53,813.

Superannuation

Minara has established accumulation superannuation accounts for its employees. The Company contributes eleven percent of Base Salary into the employee's account, which is vested in accordance with Australian superannuation legislation.

Details of Remuneration

Details of the nature and amount of each major element of the remuneration of each of the named officers of the Company receiving the highest emoluments for the reporting period to 31 December 2005 are:

Executives of Minara Resources Limited

reporting period to 31 December 2005	Base Salary \$	STI Bonus \$ (a)	Non- Cash Benefits \$	LTI Options \$ (b)	Super- annuation \$	Termin- ation Benefits \$	Total Compensation \$
Peter Johnston Chief Executive Officer	1,202,298	250,000	55,326	-	11,816	-	1,519,440
Stephen Dennis Chief Financial Officer (resigned effective 16 December 2005)	327,062	25,000	7,701	17,067	35,977	150,808	563,615
John Quayle Company Secretary	260,000	35,000	5,033	17,067	28,600	-	345,700
Jason Cooke Business Development Manager	205,000	20,000	-	17,067	22,550	-	264,617

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Other Executives of the consolidated entity

	Base Salary \$	STI Bonus \$ (a)	Non-Cash Benefits \$	LTI Options (b) \$	Super-annuation \$	Total Compensation \$
Neil Meadows General Manager Operations	375,500	29,000	-	17,067	41,305	462,872
Paul Sims Commercial Manager	211,750	16,714	-	6,827	23,292	258,583

(a) STI cash bonus paid in the reporting period to 31 December 2005 in respect of performance in 2004/05.

(b) Options are not issued in respect of Performance Rights (subject of LTI scheme from 2004 onwards) until the achievement of performance hurdles has been determined (post 1 July 2006). The maximum number of Performance Rights presently available to Mr Johnston is 53,813 options. The maximum number of Performance Rights presently available to executives is 130,873 options.

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CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Minara Resources Limited (the Company) is committed to the principle of best practice in corporate governance. The Board believes that genuine commitment to good corporate governance is essential to the performance and sustainability of the Company's business and as such depends upon the corporate culture – values and behaviours – that underlie day-to-day activities.

The Board continually reviews its corporate governance practices and regularly monitors developments in best practice governance in Australia and overseas. Where international and Australian guidelines are not consistent, the best practice guidelines of the Australian Stock Exchange Limited ("ASX") convened ASX Corporate Governance Council have been adopted as the minimum base for corporate governance practices.

BOARD OF DIRECTORS

The Board has adopted a formal charter which allocates responsibilities between the Board and management which is available from the corporate governance section of the Company website at www.minara.com.au. The charter details the composition, responsibilities and code of conduct under which the Board operates. The Board has resolved unanimously that the Company will at all times aspire to "best practice" in Corporate Governance.

Unless otherwise indicated in this statement the practices specified in the charter have been followed throughout the reporting period and will remain in force until amended by resolution of the Board.

Role of the Board

The Board acknowledges its accountability to shareholders for creating shareholder value within a framework that protects the rights and interests of shareholders and ensures the Company is properly managed. The Board aims to achieve these objectives through the adoption and monitoring of strategies, plans, policies and performance as follows:

- a. *Providing input into, and approval of, the Group's strategic direction; approval and monitoring of budgets and business plans; and ensuring appropriate resources are available, including capital management and major capital expenditure.*
- b. *Approving the Group's systems of risk management, monitoring their effectiveness and maintaining a dialogue with the Group's auditors.*
- c. *Considering, approving and monitoring internal and external financial and other reporting, including reporting to shareholders, the ASX and other stakeholders.*
- d. *Selection and evaluation of Directors, the Chief Executive Officer (CEO), Chief Financial Officer, and the Company Secretary and planning for their succession.*
- e. *Setting the CEO and Director remuneration within shareholder approved limits and ensuring that the remuneration and conditions of service of senior executives are appropriate.*
- f. *Ensuring, and setting standards for, ethical behaviour and compliance with the Group's own governing documents, including the Group's Code of Conduct and corporate governance standards.*

Board Processes

The Board aims to perform its role and objectives through the adoption and monitoring of strategies, plans, policies and performance; the review of the CEO and senior management performance, conduct and reward; monitoring of the major risks of the company's business; and by ensuring the company has policies and procedures to satisfy its legal and ethical responsibilities.

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To assist in the execution of its responsibilities, the Board has established a number of Board Committees including an Audit and Risk Management Committee, Remuneration Committee and a Nominations Committee. These Committees have written mandates and operating procedures that are reviewed on a regular basis.

The Board determines the strategic direction of the Company and sets policies accordingly. Oversight of the Company's executive management and operations is maintained through committees and in addition the Board monitors substantive issues such as ethical standards and social and environmental responsibilities.

Composition of the Board

The names of the Directors of the Company at the date of this Statement are set out in the Directors' Report in this financial report. The composition of the Board is determined using the following principles:

- a maximum of ten Directors;
- a non-executive Director as Chairman;
- a majority of non-executive Directors; and
- a balance of independent and non-independent Directors.

The Board is currently comprised of six Directors: five non-executive Directors and one executive Director. However, the Company's Constitution provides for a maximum of 10 Directors. The Board periodically reviews its size as appropriate.

Directors are considered to be independent if they are not major shareholders, are independent of management, and are free from any business or other relationship that could materially interfere with their exercise of free and independent judgement.

Excluding the Chief Executive Officer, who is appointed by the Board and holds the office of Managing Director, the Board comprises a majority of independent Directors (Messrs Campbell, Morrison and Macpherson) with two Directors (Messrs Strothotte and Glasenberg) who, although not being major shareholders themselves, have been regarded as being non-independent by virtue of their directorship of a major shareholder, Glencore International AG.

While the composition of the current Board, using the cautious definition of independence adopted by the Board as above, does not strictly comply with ASX Corporate Governance Council recommendation 2.1 which recommends that the board should comprise a majority of independent directors, the Board regards the present composition of Directors as a good balance with the appropriate mix of expertise and experience and ability to represent the interests of all shareholders.

Meetings

The Board meets on a regular basis to retain full and effective control and monitor executive management. During the reporting period for the twelve months to 31 December 2005, the full Board met 5 times. The independent Directors met separately three times to consider matters in which the non-independent Directors were conflicted. The Directors' attendance at meetings is detailed in the Directors' Report.

Papers for Board meetings are circulated seven days prior to the date of meeting.

Members of the Management team may attend meetings at the invitation of the Board.

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Role of Chairman and Chief Executive Officer (CEO)

The Chairman is an independent Director elected by the full Board, having no association with the Company, nor is he a substantial shareholder of the Company, has not previously been an employee, nor had a material contractual relationship with the Company within the last three years.

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

The CEO is responsible for implementing Group strategies and policies. The Board Charter specifies that these are separate roles to be undertaken by separate people.

Term of Office

The Board reviews its performance and composition on an annual basis and aims to have members with high levels of intellectual ability, experience, soundness of judgement and integrity to maximise its effectiveness and contribution. Directors serve a maximum three-year term before being required to be re-elected by members. Minara's constitution provides that at least one third (or the nearest whole number) of Directors must retire at each Annual General Meeting, but are eligible for re-election at that meeting. There is no compulsory retiring age.

Independent Professional Advice

In performing their duties Directors have the right to seek independent, professional advice at the Company's expense, in furtherance of their duties as Directors, with the approval of the Chairman, which approval shall not be unreasonably withheld.

BOARD COMMITTEES

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Nominations, Remuneration and Audit and Risk Management committees. Each is comprised entirely of non-executive Directors. The committee structure and membership is reviewed periodically.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website (www.minara.com.au). All matters determined by committees are submitted to the full Board as recommendations for Board decision.

Minutes of committee meetings are tabled at the immediately subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Audit & Risk Management Committee

The Audit & Risk Management Committee is comprised of the following non-executive Directors:

Mr J Morrison (Chairman)
Mr M Macpherson
Mr S Isaacs (alternate director for Mr W Strothotte)

Each of these Directors is regarded as independent, except for Mr Isaacs who is regarded as being non-independent by virtue of his employment with a major shareholder, Glencore

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International AG., however he brings to the Committee an in-depth international financial expertise ensuring a balanced and complementary Committee.

The Committee operates under a charter adopted by the Board of Directors to ensure that an effective system of financial reporting, internal control and risk management is in place to present a true and factual statement of the Company's financial and risk position. An enterprise-wide risk management system, based on the Australian/New Zealand Risk Management Standard, is in place to enable the identification, management and reporting of risk throughout the business.

The Committee's primary function is one of oversight. In carrying out this function it reviews and monitors internal controls and procedures to ensure they are adequate and effective to minimise material financial, operating, and environmental risks; reviews and assess' the adequacy of compliance with all regulatory requirements and generally accepted accounting principles; reviews the scope and effectiveness of the internal and external audit and risk review functions and reviews findings and issues brought to its attention and to report to the Board on appropriate actions; and reviews the appointment, performance and remuneration of external auditors.

The Audit & Risk Management Committee meets with the external auditors and senior management to review the half yearly and annual financial statements and report, as well as specific issues or matters which may arise from the external audit process. The external auditor submits a formal report to the Audit and Risk Management Committee in relation to the half yearly review and the annual audit.

The Chairman of the Audit & Risk Management Committee is not the Chairman of the Company. The Audit & Risk Management Committee reports to the Board after each Committee meeting. The Audit and Risk Management Committee has the necessary authority and resources to discharge its duties and responsibilities including the authority to select, retain and terminate specialist advisers, counsel or experts as deemed necessary or appropriate without seeking the approval of the Board or management.

Remuneration Committee

The Remuneration Committee is comprised of the following non-executive Directors:

Mr J Campbell (Chairman)
Mr I Glasenberg
Mr J Morrison

The Remuneration Committee reports to the Board after each Committee meeting. The details of Director and senior Executive remuneration are set out in the Remuneration Report.

Nominations Committee

The Nominations Committee is comprised of the following non-executive Directors:

Mr J Campbell (Chairman)
Mr I Glasenberg
Mr M Macpherson

The main role of the Nominations Committee is for recommending candidates to fill Board and sub-Committee vacancies and for recommending Board composition and balance. The Committee also reviews Board performance.

New Directors receive a formal letter of appointment setting out the responsibilities, rights and terms and conditions of their appointment. Directors participate in a comprehensive induction which covers the operations, financial position, strategic and risk management issues, as well as the operation of the Board and its sub-committees.

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CODE OF BUSINESS CONDUCT

The Board has adopted a Code of Conduct (the Code) and a policy “Behaviour Standards - Standards Of Business Conduct” setting out parameters for ethical behaviour and business practices which applies to all of the Company’s directors, officers and employees as well as to directors, officers and employees of each subsidiary company. The Code is included in the Board Charter and is available for review on the Company website. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group’s integrity.

In summary, the Code requires that at all times all group personnel act with the utmost integrity, objectivity and in compliance with both the letter and the spirit of the law and Company policies.

Conflicts of Interest

All directors of the Company must keep the Board advised, on an ongoing basis, of any private interest that could potentially conflict with the interests of the Company or its subsidiaries. Where the Board believes that a significant conflict exists, the director concerned does not receive relevant board papers and is not present at the meeting whilst the item is considered. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

All directors and executive officers of the Company and its subsidiaries are required to disclose to the Company any material transaction or commercial relationship or corporate opportunity that reasonably could be expected to give rise to such a conflict.

Insider Trading

Trading in shares by any Director or senior executive of the Company within the period between the close of each financial quarter and the release of quarterly, half yearly interim and full year results by the Company requires the express written approval of the Chief Executive Officer or Chairman before any trading is conducted or the entry into any share trading agreements.

The Code and the Company’s trading policy is discussed with each new employee as part of their induction training and all employees are asked to sign an annual declaration confirming their compliance.

Fair dealing and ethical standards

The Code requires all directors, officers and employees of the Company and its subsidiaries to behave honestly and ethically at all times with all people and other organisations.

The Code requires employees who are aware of unethical practices within the Group or breaches of the Company’s trading policy to report these using the Company’s whistleblower program. This can be done anonymously. The Company Secretary also has responsibility for the initial investigations of significant issues raised under the whistleblower program. These matters are reported to the Audit & Risk Management Committee.

The Directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities. A copy of the Code and the trading policy are available on the Company’s website www.minara.com.au

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FINANCIAL REPORTING

Reporting Standards

The Company is committed to providing shareholders with clear, transparent, and high quality financial information in a timely manner. The Company continuous disclosure policy underpins this approach.

The financial reports of the Company are produced in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accountings Standards Board and the Corporations Act, and in many cases exceed the disclosure requirements of the Corporations Act and the Australian Accounting Standards Board policy 1034. The financial statements and reports are subject to review every half year and the auditor issues an audit opinion accompanying the full year results for each financial year .

External Auditors

The Company and Audit and Risk Management Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. KPMG were appointed as the external auditors in 1995. In 2005, following the AGM on 18 May, 2005 Deloitte Touche Tomatsu were appointed as the external auditors.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in note 5 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Management Committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Management Certification

The Company requires that management complete a comprehensive questionnaire and certification process in relation to the preparation and integrity of all financial reports and the effectiveness of all internal control systems.

As part of this process, the Managing Director and Chief Financial Officer are required to make the following certifications to the Board:

1. that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and group and are in accordance with relevant accounting standards.
2. that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

International Financial Reporting Standards (IFRS)

IFRS are being promoted as a single set of global standards. Australian equivalents to IFRS have become a requirement for all Australian reporting entities with financial years commencing on or after 1 January 2005.

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There are many benefits of reporting under these standards, including better financial information for shareholders and regulators, enhanced comparability, improved transparency of results, and increased capability to secure cross-border listing and funding.

Conversion to IFRS is much more than an accounting compliance issue. It poses a number of significant and complex questions that the Company needs to consider.

The Company formed an IFRS project team which, working in conjunction with advisors, was charged with the complete implementation of IFRS for the Company and its subsidiaries.

As noted above, all Companies must be IFRS compliant by 1 January 2005. For Minara, this means that this report for the financial year ended 31 December 2005 represents the first official IFRS compliant annual report to be published by the company.

RISK ASSESSMENT

The Board, through the Audit & Risk Management Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the Company website. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

Detailed control procedures cover management accounting, purchases and payments, financial reporting, capital expenditure requests, project appraisal, environment, health and safety, IT security, compliance, and other risk management issues. There is a systematic review and monitoring of key business operational risks by a management group which meets quarterly. The group reports on current and future risks and mitigation activities to the Audit & Risk Management Committee.

The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the Environmental Management System (EMS) and the Safety Management System (SMS) were established to facilitate the systematic identification of environmental and OH&S issues and to ensure they are managed in a structured manner. This system allows the Company to:

- monitor its compliance with all relevant legislation
- continually assess and improve the impact of its operations on the environment
- encourage employees to actively participate in the management of environmental and OH&S issues
- work with trade associations representing the entity's businesses to raise standards
- use energy and other resources efficiently; and
- encourage the adoption of similar standards by the entity's principal suppliers, contractors and distributors.

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CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

The Company is a disclosing entity under the Corporations Act and is subject to the continuous disclosure requirements under the ASX Listing Rules. Communications with shareholders and other stakeholders are given a high priority. In addition to statutory disclosure documents such as Annual Reports and Quarterly production reports, the Board is committed to keeping all stakeholders informed of all material developments that affect the Company in a timely manner.

The Company has a formal policy and comprehensive procedures on continuous disclosure. Once the Board or Management becomes aware of information concerning the Company that would be likely to have a material effect on the price or value of the company's securities (and which does not fall within the exceptions to the disclosure requirements contained in the Listing Rules), that information is released to the ASX.

The Board has appointed the Company Secretary (or in his absence, Chief Legal Counsel) as the person responsible for communication to ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. All Company announcements, presentations or other briefings are posted on the company's website after release to the Australian Stock Exchange. The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates of Company matters.

The Board also endorses full and regular communication with and between Directors, the Chief Executive Officer, the Company Secretary, Senior Management, the external auditors and other Professional Advisers, Shareholders and other significant stakeholders. The Board also ensures the Company Secretary maintains a good, open and frank relationship with the ASX and its designated Company officers to ensure compliance and full disclosure.

All shareholders receive a copy of the Company's annual report at the same time as they receive by post a copy of the Notice of the Annual General Meeting.

Full use is made of annual general meetings to inform shareholders of current developments through appropriate presentations and to provide opportunities for questions.

COMPLIANCE WITH ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

The Company complies with all of the ASX Corporate Governance Council best practice recommendations with the exception that independent directors, using the cautious definition of independence adopted by the Board as above, are not in the majority on the Board.

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INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated		Company	
		2005 \$'000	2004 * \$'000	2005 \$'000	2004 * \$'000
Revenue from operations	2(a)	361,376	197,959	-	-
Cost of product sold	2(b)	(293,975)	(126,080)	-	-
Gross profit from the sale of product		67,401	71,879	-	-
Other income	2(b)	10,047	360	282	167
Finance expenses	2(b)	(4,840)	(1,601)	(107)	(2)
Other expenses	2(b)	(17,043)	652	(3,527)	(2,748)
Allowances and write downs	2(b)	(14,830)	(14,875)	88,465	(861)
Profit before income tax expense		40,735	56,415	85,113	(3,444)
Income tax (expense) / benefit attributable to profit from ordinary activities	3	3,101	(58)	15	-
Profit for the period		43,836	56,357	85,128	(3,444)
Profit attributable to minority interest	32	(871)	-	-	-
Profit attributable to members of the parent entity		42,965	56,357	85,128	(3,444)
Earnings per share:					
Basic (cents per share)	19	9.25	12.20		
Diluted (cents per share)	19	9.25	12.18		

Notes to the financial statements are included on pages 32 to 81.

* Refer note 1 (x) for an explanation on the comparative period.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

ACN 060 370 783

BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	Consolidated		Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current assets					
Cash and cash equivalents	29	72,022	103,213	350	7,606
Trade and other receivables	6	56,446	46,264	5,649	4,928
Inventories	7	60,064	62,020	-	-
Other	8	465	4,423	-	-
Total current assets		188,997	215,920	5,999	12,534
Non-current assets					
Trade and other receivables	6	2,987	848	107,904	151,980
Inventories	7	56,972	41,412	-	-
Property, plant and equipment	10	365,281	339,879	24	-
Mine assets	11	88,094	89,054	-	-
Deferred tax assets	3	11,203	11,469	53	38
Other	8	858	858	296,329	296,329
Financial assets	9	-	-	90,312	-
Total non-current assets		525,395	483,520	494,622	448,347
Total assets		714,392	699,440	500,621	460,881
Current liabilities					
Trade and other payables	12	50,658	44,379	1,517	1,863
Borrowings	13	12,432	6,922	-	27
Provisions	15	2,534	2,490	54	116
Other		-	-	-	-
Total current liabilities		65,624	53,791	1,571	2,006
Non-current liabilities					
Trade and other payables	12	32,794	31,097	1,835	1,635
Borrowings	13	25,268	21,269	-	6
Provisions	15	25,748	23,539	124	15
Deferred tax liabilities	3	67,867	71,233	-	-
Other		-	-	-	-
Total non-current liabilities		151,677	147,138	1,959	1,656
Total liabilities		217,301	200,929	3,530	3,662
Net assets		497,091	498,511	497,091	457,219
Equity					
Contributed equity	16	773,467	771,938	773,467	771,938
Reserves	17	-	307	-	307
Accumulated losses	18	(276,216)	(272,703)	(276,376)	(315,026)
Parent entity interest		497,251	499,542	497,091	457,219
Minority interest	32	(160)	(1,031)	-	-
Total equity		497,091	498,511	497,091	457,219

Notes to the financial statements are included on pages 32 to 81

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

2005	Consolidated				Company					
	Contri- buted equity	Reserves	Accum. losses	Minority interest	Total	Contri- buted equity	Reserves	Accum. losses	Minority interest	Total
Balance at 1 January 2005	\$'000 771,938	\$'000 307	\$'000 (272,703)	\$'000 (1,031)	\$'000 498,511	\$'000 771,938	\$'000 307	\$'000 (315,026)	\$'000 -	\$'000 457,219
Share based payments	-	102	-	-	102	-	102	-	-	102
Transferred to issued capital on exercise of options	409	(409)	-	-	-	409	(409)	-	-	-
New shares issued	1,120	-	-	-	1,120	1,120	-	-	-	1,120
Total recognised income and expense for the year	-	-	43,836	-	43,836	-	-	85,128	-	85,128
Profit attributable to minority interest	-	-	(871)	871	-	-	-	-	-	-
Dividends Paid – 5c per share	-	-	(46,478)	-	(46,478)	-	-	(46,478)	-	(46,478)
Balance at 31 December 2005	773,467	-	(276,216)	(160)	497,091	773,467	-	(276,376)	-	497,091

Notes to the financial statements are included on pages 32 to 81

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

2004 *	Consolidated				Company					
	Contri- buted equity \$'000	Reserves \$'000	Accum. losses \$'000	Minority interest \$'000	Total	Contri- buted equity \$'000	Reserves \$'000	Accum. losses \$'000	Minority interest \$'000	Total
Balance at 1 July 2004	862,004	205	(332,502)	(1,031)	528,676	862,004	205	(311,480)	-	550,729
Share based payments	-	102	-	-	102	-	102	(102)	-	-
Capital Return	(92,696)	-	-	-	(92,696)	(92,696)	-	-	-	(92,696)
Adjustment in tax base of property, plant and equipment	-	-	3,442	-	3,442	-	-	-	-	-
New shares issued	2,630	-	-	-	2,630	2,630	-	-	-	2,630
Total recognised income and expense for the 6 month period	-	-	56,357	-	56,357	-	-	(3,444)	-	(3,444)
Profit attributable to minorities for the 6 months	-	-	-	-	-	-	-	-	-	-
Dividends Paid – 5c per share	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2004	771,938	307	(272,703)	(1,031)	498,511	771,938	307	(315,026)	-	457,219

Notes to the financial statements are included on pages 32 to 81

* Refer note 1 (x) for an explanation on the comparative period.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated		Company	
		2005 \$'000	2004 * \$'000	2005 \$'000	2004 * \$'000
Cash flows from operating activities					
Receipts from customers		346,543	205,462	-	-
Payments to suppliers and employees		(287,720)	(145,158)	(4,457)	(2,914)
Interest received		4,225	3,641	282	167
Interest and other costs of finance paid		(2,097)	(746)	(107)	(2)
Net cash provided by/(used in) operating activities	29	60,951	63,199	(4,282)	(2,749)
Cash flows from investing activities					
Payments for exploration and evaluation costs		(2,004)	(988)	(1,847)	(861)
Payments for acquisition of tenements		(3,777)	(7,692)	-	-
Payments for property, plant and equipment		(62,317)	(20,665)	(24)	-
Loans to controlled entities		-	-	-	(3,873)
Proceeds from sale of property, plant and equipment		3,444	-	-	-
Proceeds from term deposits & bonds		8,880	5,611	(90)	18
Net cash (used in)/provided by investing activities		(55,774)	(23,734)	(1,961)	(4,716)
Cash flows from financing activities					
Proceeds from issue of shares		1,222	1,200	1,222	1,200
Capital return payments to shareholders		-	(92,696)	-	(92,696)
Proceeds from borrowings		21,683	8,536	-	-
Proceeds from loans from controlled entities		-	-	44,276	101,734
Repayment of borrowings		(9,743)	(296)	(33)	-
Finance lease payments		(3,196)	(1,596)	-	(23)
Dividends paid:					
- members of the parent entity		(46,478)	-	(46,478)	-
Net cash provided by/(used in) financing activities		(36,512)	(84,852)	(1,013)	10,215
Net (decrease) / increase in cash and cash equivalents		(31,335)	(45,387)	(7,256)	2,750
Cash and cash equivalents at the beginning of the financial period		103,213	148,861	7,606	4,856
Effects of exchange rate changes on the balance of cash held in foreign currencies		144	(261)	-	-
Cash and cash equivalents at the end of the financial period	29 (a)	72,022	103,213	350	7,606

Notes to the financial statements are included on pages 32 to 81.

* Refer note 1 (x) for an explanation on the comparative period.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

At the date of authorisation of this financial report, there were a number of Standards and Interpretations that were issued but not yet effective, however the directors anticipate that the adoption of these Standards and Interpretations in future reporting periods will have no material impact on the consolidated entity.

(b) Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The consolidated entity changed its accounting policies on 1 January 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 33.

The directors have also elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standards AASB 119 'Employee Benefits' (December 2004) and AASB 2004-3 – amendments to Australian Accounting Standards, even though those Standards are not required to be applied until annual reporting periods beginning on or after 1 January 2006.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the period ended 31 December 2004, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 33), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

The accounting policies for financial instruments applicable to the comparative information and the impact of changes in these accounting policies on 1 January 2005, the date of transition for financial instruments, is discussed further in note 1(j).

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments.

(d) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all interCompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(e) Taxation

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

(f) Receivables

Trade and other debtors to be settled within 60-90 days are carried at amortised cost less impairment.

(g) Inventories

Inventories include stores, consumables and spares, ore stocks, work in progress and finished product that are in a form expected to be sold. Stores are valued at average cost. Where required inventories are written down to net realisable value.

Ore stocks are stockpiled for future processing if the ore has economic value. The processing of this ore is contemplated within the life of mine plan. Costs are apportioned to the ore stocks, based on proportionally allocating the total mining costs between medium and high grade ore stocks. Costs include direct and indirect mining costs, materials, labour and other fixed and variable overheads attributable to mining activities. The allocated cost of each recognised stockpile is assessed for its net realisable value, with any costs greater than assessed value being written off and charged as an expense to the income statement. Material with no economic value is also stockpiled, however no value is assigned to these stockpiles.

The value of work in progress and finished goods include mining costs and treatment and processing costs incurred to their stage of completion. All inventories are valued at the lower of cost and net realisable value. Expenses including marketing, selling and future costs of production are estimated to establish net realisable value. Inventories classified as non-current are not expected to be processed into final product and realised through sale within 12 months from the balance date.

(h) Revenue Recognition

Revenue

Sales revenue comprises revenue earned (net of sales discounts and direct selling costs) from the provision of product to customers and is recognised at fair value of the consideration received net of goods and services tax. Sales revenue is recognised when significant risk and reward is passed to the buyer.

Interest revenue is recognised on a time proportion basis that takes into account the effective yield on the financial assets.

Other Income

The net gain or loss of non-current asset sales are included as other income/other expenses at the date significant risk and reward passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

(i) Property, Plant and Equipment

Items of plant and equipment are initially recorded at cost, being the fair value of consideration provided plus incidental costs, including an amount for rehabilitation obligations where applicable, and depreciated as outlined below. Items of plant and equipment, including buildings and leasehold property are depreciated/amortised using the straight-line method over their estimated useful lives. Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation and amortisation rates are reviewed annually.

The depreciation and amortisation rates used for each class of asset are as follows:

- Plant and equipment 5% - 40%
- Leased plant and equipment 20% - 40%

(j) Mine Assets

Mine Assets represent the accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the consolidated entity, mine properties in relation to areas of interest and mine properties acquired.

Exploration and Evaluation

Where right of tenure is current, all exploration and evaluation expenditure is capitalised in the period in which it is incurred and is subject to impairment testing. Where a mineral resources has been identified and where it is expected that future expenditures will be recovered by future exploitation or sale, the impairment of the exploration and evaluation is written back and transferred to development costs.

Development

Development costs related to an area of interest where right of tenure is current, are carried forward to the extent that it is probable that they are expected to be recouped through sale or successful exploitation of the area of interest.

Mine properties

Where mining of a mineral deposit has commenced, the accumulated development costs are transferred to mine properties. Amortisation of mine property costs is provided on the unit of production basis. The unit of production basis results in an amortisation charge proportional to the depletion of the estimated economically recoverable ore reserves.

(k) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and lease finance charges, exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets, which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate. Interest charges are capitalised to the extent that the related debt directly finances the purchase and construction of plant. Interest charges cease to be capitalised when substantially all the activities necessary to prepare the qualifying asset for its intended use (or sale) are complete.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(l) Leases

Leases of plant and equipment under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Finance leases are capitalised. A lease asset and a lease liability equal to the fair value or if lower the present value of the minimum lease payments are recorded at the inception of the lease. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs. Refer to note 1(k).

Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised lease assets are amortised on a straight-line basis over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Operating leases

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased property.

(m) Impairment

At each reporting date, the consolidated entity reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less cost to sell and value in use. In determining the recoverable amount estimated future cash flows are discounted to their present value on a pre-tax basis using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, (or cash generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(n) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 60 days.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(o) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Rehabilitation

Provision for rehabilitation is determined based on the best estimates of the consideration required to settle the present obligation at the reporting date. The provision is based on future cash flows associated with meeting rehabilitation obligations over the life of the mine, and thus the carrying amount of the provision is the present value of those cash flows. This carrying amount of the provision increases each period to reflect the passage of time, with the increase being recognised as a finance charge. The initial recognition of the net present value of the full restoration and rehabilitation provision at the beginning of each project also results in the creation of an asset (included under the classification of PP&E) equal to that of the provision. This asset is amortised on a straight line basis over the life of the mine.

(p) Employee Benefits

Wages and salaries, annual leave, long service leave, and sick leave

The directors have elected under s.334 (5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 'Employee Benefits', even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities are recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities are recognised in respect of employee benefits, which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

The Company and controlled entities contribute to a defined contribution superannuation plan. Contributions to defined contribution superannuation plans are expensed when incurred.

(q) Share-based payments

Share-based compensation benefits are provided to executives via the Long Term Incentive plan.

Share options granted before 7 November 2002 and vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds are received and allocated to share capital.

Share options granted after 7 November 2002 and vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds are received and allocated to share capital.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Share options granted after 7 November 2002 with vesting after 1 January 2005

The fair value of options granted under the Long Term Incentive plan is recognised as an employee benefit expense with a corresponding increase in employee benefits reserve. The fair value of the options are calculated at the date of grant using a Binomial model and allocated to each reporting period evenly over the period from grant date to vesting date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and service period. Upon the exercise of options, the balance of the employee benefits reserve relating to those options is transferred to equity.

(r) Joint Ventures

The consolidated entity's interest in jointly controlled assets and operations are brought to account by including its interest in the following amounts in the appropriate categories in the balance sheet and income statement:

- each of the individual assets employed in the joint venture;
- liabilities incurred by the consolidated entity in relation to the joint venture;
- expenses incurred in relation to the joint venture.

(s) Foreign Currency

The functional currency of the economic entity has been determined to be Australian dollars. Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change.

The translation rate for the A\$:US\$ exchange rate was 0.7342 at 31 December 2005 (0.7805 at 31 December 2004).

(t) Derivatives financial instruments

Although the Company does not currently have any derivative financial instruments the following policies have been disclosed as the policies of the Company. The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity may use forward foreign exchange contracts, forward commodity exchange contracts and put and call options to hedge its foreign exchange rate and commodity risk. Derivative financial instruments are not held for speculative purposes.

Derivatives are initially recorded at fair value. Derivatives outstanding at the balance date are revalued to fair value and any gains or losses are brought to account in the income statement.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Derivatives that do not qualify for hedge accounting

Where certain derivative instruments do not qualify for hedge accounting, changes in the fair value of those derivative instruments are recognised immediately in profit or loss.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

The consolidated entity does not have any forward foreign exchange contracts, forward commodity exchange contracts or put and call options.

(u) Goods and Services Tax

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

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

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(v) Earnings per Share

Basic earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted earnings per share

Diluted EPS is calculated by dividing the basic earnings per share, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(w) Use and Revision of Accounting Estimates

As a result of the uncertainties inherent in business and other activities, many items in a financial report cannot be measured with precision but can only be estimated. The estimation process involves best estimates based on the latest information available. Estimates may be required, for example, of bad debts, inventory obsolescence or the useful lives or expected pattern of consumption of economic benefits of depreciable assets. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

(x) Comparative information

There is no comparable period for the twelve months to 31 December 2004 as the immediately preceding annual reporting period of the consolidated entity was for the six months to 31 December 2004 due to a change in the year end of the reporting entity. Given that the results of the consolidated entity are not, in the opinion of the directors, affected by seasonality, and to provide users with useful comparative information, the directors have included for comparative purposes the results of the consolidated entity for the six months ended 31 December 2004.

(y) Comparative information – financial instruments

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement', as permitted on the first-time adoption of A-IFRS.

Although the Company does not have any derivative financial instruments in the current or comparative year the accounting policies applied to accounting for financial instruments in the current financial year are detailed in notes 1(a) to (x). The following accounting policies were applied to accounting for financial instruments in the comparative financial year:

(i) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or Consolidated Entity. Trade accounts payable are normally settled within 60 days.

(ii) Derivative financial instruments

The Consolidated Entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The Consolidated Entity may use forward foreign exchange contracts, forward commodity exchange contracts and put and call options to hedge its foreign exchange rate and commodity risk. Derivative financial instruments are not held for speculative purposes.

All non-specific hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at balance date are valued at the rates ruling on that date and any gains or losses are brought to account in the profit and loss. Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

Where hedge transactions are designated to hedge the purchase or sale of goods or services, exchange differences arising up to the date of purchase or sale, together with any costs or gains arising at the time of entering into the hedge are deferred and included in the measurement of the purchase or sale.

Any exchange differences on the hedge transaction after that date are included in the profit and loss.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the hedge transaction are recognised immediately in the profit and loss.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains and losses that arise on the foreign currency hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur, deferred gains and losses that arose on the foreign currency hedge prior to its termination are included in the profit and loss for the period.

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. Where the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the profit and loss for the period.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the forecasted transaction is no longer expected to occur as designated, the gains and losses are recognised immediately in the profit and loss.

The Consolidated Entity has not entered into any new forward foreign exchange contracts, forward commodity exchange contracts or put and call options during the financial year.

(iii) Foreign currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the profit and loss in the financial year in which the exchange rates change.

(iv) Borrowings

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and lease finance charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets.

Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Interest charges are capitalised to the extent that the related debt directly finances the purchase and construction of plant. Interest charges cease to be capitalised when the expenditure no longer satisfies the above policy or when production commences.

(v) Investments

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the profit and loss when they are declared by the controlled entities.

Investments in other listed entities are measured at fair value, being the current quoted market prices.

(vi) Receivables

Trade and other debtors to be settled within 60-90 days are carried at amounts due. The collectibility of all receivables is assessed at balance date and specific allowances are made for any doubtful debts.

Effect of changing the accounting policies for financial instruments

There are no effects of changes in the accounting policies for financial instruments on the balance sheet as at 1 January 2005.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
2 Profit from operations				
(a) Revenue				
Revenue from operations consisted of the following items:				
Sales revenue				
Revenue from sale of product (i)	359,448	201,060	-	-
Realised foreign exchange gains / (losses) (ii)	1,928	(3,101)	-	-
	<u>361,376</u>	<u>197,959</u>	<u>-</u>	<u>-</u>

(i) Revenue from the sale of product, being nickel, cobalt and ammonium sulphate, is recorded net of sales discounts, commissions and freight charges.

(ii) Realised foreign exchange gains / (losses) are generated on the receipt of sales revenue when booking the receipt against the debtor.

(b) Profit before income tax

Profit/(loss) before income tax has been arrived at after crediting/ (charging) the following from operations:

Other Income

Interest revenue	4,668	3,641	282	167
Ore royalty (i)	2,332	-	-	-
Net Foreign exchange gains / (losses) (ii)	2,275	(3,388)	-	-
Income outside operating activities	-	107	-	-
Other	772	-	-	-
	<u>10,047</u>	<u>360</u>	<u>282</u>	<u>167</u>

(i) Ore royalty represents royalties received in respect of ore processed from the Abednego tenements that do not eliminate on consolidation.

(ii) Realised foreign exchange gains / (losses) are generated on the sales of US dollars held by the consolidated entity.

Profit/(loss) before income tax has been arrived at after charging the following expenses from operations:

Cost of product sold				
Production costs	(247,927)	(104,164)	-	-
Depreciation of property plant and equipment	(25,080)	(12,127)	-	-
Amortisation of leased property plant and equipment	(2,798)	(1,399)	-	-
Amortisation of mine properties	(4,395)	(1,720)	-	-
Operating Lease Expense - minimum lease payments	(4,298)	(2,045)	-	-
Royalties	(9,477)	(4,625)	-	-
Total cost of product sold	<u>(293,975)</u>	<u>(126,080)</u>	<u>-</u>	<u>-</u>

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
2 Profit from operations (cont'd)				
Finance expenses:				
Interest expense – provision for rehabilitation	(2,743)	(855)	-	-
Finance lease expenses	(1,264)	(720)	-	(2)
Secured Loan (i)	(726)	(26)	-	-
Other	(107)	-	(107)	-
Total finance expense	(4,840)	(1,601)	(107)	(2)
(i) In addition financing costs of \$218,000 associated with the loan were capitalised to property plant and equipment				
Other expenses				
Corporate	(6,321)	(2,820)	(3,527)	(2,748)
Murrin Murrin administration and other	(5,245)	(2,525)	-	-
Equity share-based payments	(102)	(102)	-	-
Accrual for native title payable	(659)	(301)	-	-
Reversal of plant license fees payable	-	6,576	-	-
Allowance for doubtful debts	-	(176)	-	-
Amortisation of rehabilitation asset	-	-	-	-
Loss on sale of mining equipment	(4,716)	-	-	-
	(17,043)	652	(3,527)	(2,748)
Allowances and Write Downs				
Inventory write down	(1,390)	(580)	-	-
Inventory price adjustment	(3,653)	1,629	-	-
Medium grade ore stock write down	(6,563)	(2,783)	-	-
Write down of plant - refer note 10	(1,220)	(12,711)	-	-
Write down of exploration and evaluation	(2,004)	(988)	(1,847)	(861)
Write back of diminution of investments in controlled entities	-	-	90,312	-
Write back of accrual on deferred settlement	-	558	-	-
Unrealised foreign exchange and commodity price gains/(losses) on nickel prepayments	-	-	4,559	(63,625)
Reversal of / (provision for) diminution in nickel prepayment - controlled entities	-	-	(4,559)	63,625
	(14,830)	(14,875)	88,465	(861)
Employee benefit expense:				
Post employment benefits:				
Defined contribution plans	6,123	2,824	-	-
	6,123	2,824	-	-

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
3 Income taxes				
(a) Income tax recognised in profit or loss				
Tax expense/(income) comprises:				
Current tax expense/(income)	(12,131)	(16,883)	1,560	1,133
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	3,101	(58)	15	-
Benefit arising from previously unrecognised tax losses, tax credits or temporary differences of a prior period that is used to reduce:				
- current tax expense	12,131	16,883	(1,560)	(1,133)
Total tax expense/(income)	3,101	(58)	15	-

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Profit / (Loss) from operations	40,735	56,415	85,113	(3,444)
Income tax expense / (benefit) calculated at 30%	12,221	16,925	25,534	(1,033)
Non-deductible expenses				
Write back of diminution of investments in controlled entities	-	-	(27,094)	-
Legal and restructuring costs	(90)	(100)	-	(100)
Income tax losses not brought to account	(15,232)	(16,767)	1,545	1,133
	(3,101)	58	(15)	-
(Over)/under provision of income tax in previous year				
	(3,101)	58	(15)	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
3 Income taxes (cont'd)				
(c) Deferred tax balances				
Deferred tax assets comprise:				
Temporary differences	11,203	11,469	53	38
	11,203	11,469	53	38
Deferred tax liabilities comprise:				
Temporary differences	67,867	71,233	-	-
	67,867	71,233	-	-

Taxable and deductible temporary differences arise from the following:

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

2005	Consolidated			Company		
	Opening balance	Charged to income	Closing balance	Opening balance	Charged to income	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross deferred tax liabilities:						
Property, plant and equipment	40,931	508	41,439	-	-	-
Mine assets	30,302	(3,874)	26,428	-	-	-
	71,233	(3,366)	67,867	-	-	-
Gross deferred tax assets:						
Inventories	9	2,402	2,411	-	-	-
Borrowings	1,993	(1,764)	229	-	-	-
Provisions	9,466	(981)	8,485	38	15	53
Other	-	78	78	-	-	-
	11,469	(265)	11,203	38	15	53
	59,764	(3,101)	56,664	- 38	(15)	(53)

2004	Consolidated			Company		
	Opening balance	Charged to income	Closing balance	Opening balance	Charged to income	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross deferred tax liabilities:						
Property, plant and equipment	40,579	352	40,931	-	-	-
Mine assets	31,965	(1,663)	30,302	-	-	-
	72,544	(1,311)	71,233	-	-	-
Gross deferred tax assets:						
Trade and other receivables	14	(5)	9	-	-	-
Inventories	1,982	11	1,993	-	-	-
Provisions	10,841	(1,374)	9,467	37	1	38
	12,825	(1,368)	11,469	37	1	38
	59,719	58	59,764	37	1	38

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Unrecognised deferred tax balances				
The following deferred tax assets have not been brought to account as assets:				
Tax losses	339,078	389,850	30,083	24,934
	339,078	389,850	30,083	24,934

Tax consolidation

Relevance of tax consolidation to the consolidated entity

As at 31 December 2005, the Directors have not made a decision to elect to be taxed as a single entity.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

4 Key management personnel compensation

Remuneration Committee

The role of the Remuneration Committee is to:

- Review and determine, on the basis of independent external advice, the compensation of the Chief Executive Officer and Managing Director;
- Review and ratify CEO recommendations on the compensation of executive management;
- Agree performance targets to be set for each forthcoming year and the procedures for administering executive compensation;
- Determine the fees payable to the Chairman and other non-executive Directors in accordance with industry standards and external advice;
- Review short and long term incentive based schemes including any Option and/or Employee Share Plans;
- Review and approve compensation strategy and policies; and
- Brief the Board on compensation outcomes.

All of the members of the Committee are non-executive Directors. The members at the date of this report are Mr Campbell (Chairman), Mr Glasenberg and Mr Morrison. The Company Secretary acts as secretary to the Committee.

The Committee met twice during the reporting period to 31 December 2005. Mr Johnston, Managing Director and Chief Executive Officer, attended the meetings by invitation and provided advice on request. He was not present when matters associated with his own compensation were being discussed. The Committee also sought advice from external consultants including Hay Group.

The Committee complies with the Principles of Good Corporate Governance and Best Practice Recommendations set out in the Listing Rules of the Australian Stock Exchange.

Key management personnel compensation policy

The Company compensation policy is to ensure compensation packages properly reflect each person's duties and responsibilities and that compensation is competitive in attracting, retaining and motivating people of the highest calibre.

Non-Executive Directors' Compensation

Article 12.13 of the Company's Constitution provides that the Directors (excluding any Directors who are employees of the Company) may be paid such compensation as is determined from time to time in general meeting, and that compensation accrues from day to day. The compensation may be divided among the Directors in such proportion as they from time to time agree and, in default of agreement, equally. ASX Listing Rule 10.17 provides that the Company must not increase the total amount of directors' fees payable by it or any of its controlled entities without the approval of holders of its ordinary securities.

At the Company's Annual General Meeting held on 26 November 2003, members approved a resolution to the effect that the maximum amount of directors' fees payable to non executive Directors was fixed at \$800,000 in total, for each twelve month period commencing 1 July in any year until varied by Ordinary Resolution of Members.

During 2005 the level of compensation, or base fees, for non-executive Directors and the non-executive Chairman was increased by approval of the Compensation Committee. Compensation for non-executive Directors was increased from \$65,000 to \$70,000 per annum, effective 1 July 2005. Compensation for the non-executive Chairman was increased from \$180,000 to \$190,000 per annum, effective 1 July 2005. Superannuation contributions are also paid by the Company on behalf of the non-executive Directors at the rate of 10% of base fees.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

4 Key management personnel compensation (cont'd)

Non-executive Directors do not participate in any cash bonus, options or share plans that may be developed for Executives. From 1 July 2004, additional fees of \$5,000 per annum are payable to non-executive Directors for participation on the Board Audit & Risk Management Committee. Other fees or allowances may be payable in special circumstances as agreed by the Board. Executive Directors are not paid Directors fees.

Retirement benefits for current non-executive Directors are expressed as multiples of the final year average base directors fees but have been capped at entitlements accrued as at 30 June 2004. The benefit payable on retirement for Mr Campbell is capped at 1.6 times final year of service base fee; for Mr Morrison it is 1.5 times; and for Mr Macpherson it is 0.7 times. Retirement benefits are only paid following approval by the Board. Non-executive Directors appointed subsequent to 1 July 2004 do not receive retirement benefits.

The Board and Compensation Committee recognises that the Minara Group must offer competitive compensation to attract, retain and motivate people of the highest calibre.

The compensation package for key management comprises base salary, short and long-term incentive plans and retirement benefits. The survival and success of Minara will be heavily dependent on the ability of the executive and senior management team at Minara to deliver results over the short to medium term. The variable (at risk) pay structure for this group assists with the following objectives:

- Provide a focus on the key business success factors for the next 12 – 18 months
- Provide an opportunity for executives to share in the success of Minara
- Aid in the retention of critical executive skills in a challenging work environment
- Provide competitive overall reward for successful performance while limiting the growth in fixed pay.

Details are outlined below.

Base Salary

Base salaries are determined by reference to the size and influence of the role, and individuals' performance and experience. The Committee obtains market data to benchmark salary levels in the resources, refining, and petrochemical industries to determine base salaries. Base salaries are reviewed in June each year.

Short Term Incentive Scheme

Short-term incentive (STI) rewards by way of a cash bonus are payable, depending on performance, for meeting or exceeding personal key performance indicators in relation to corporate objectives and specific operational targets. It provides focus for the management team and ensures they address those issues critical to the future of Minara.

The STI provides a cash incentive payment ranging up to 60% of the base salary for management roles payable quarterly (from 1 January 2005) during the year. Specific performance targets are set for each manager covering financial, production, business improvement and other goals relevant to, and strongly influenced by, the particular manager. Site management are generally focussed on production and safety goals while the corporate management goals are more related to corporate financial and specific project activities. The targets are set such that payments will increase progressively for achievements above a minimum acceptable threshold, up to the maximum 20%, 40% or 60% payment for achievement of challenging stretch goals. If performance for an individual is below the threshold level no STI payment will be made.

The Hay Group has advised that the maximum incentive opportunity for these jobs is competitive when compared to market practice and recognises the critical issues facing Minara at present.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

4 Key management personnel compensation (cont'd)

Long Term Incentive Scheme

The Long Term Incentive (LTI) plan provides an opportunity to link part of the management reward to shareholder returns over an extended period. The Minara Executive LTI Scheme has the following features:

- Equity-based reward scheme designed to link management performance to shareholder returns
- Granted to selected members of the management team only from time to time
- Allocation is determined in line with competitive market practice
- Vesting conditions include a minimum of two year's service from date of grant
- Performance conditions are applied as appropriate
- Maximum life of four years from the date of grant.

The breadth of the Scheme encompasses the management levels of key decision-makers in the Company. The application of the Scheme allocation is by way of performance rights to receive share options. The number of performance rights is determined after the end of the financial year, subject to meeting or achieving performance targets, with performance rights able to exercised and options issued 12 months later. Refer under the section *Chief Executive Officer Compensation* for further detail.

Performance Rights reserved on 8 October 2004 under the Minara Executive LTI Scheme allowed executives (excluding Mr Johnston) to receive a maximum of 576,915 options over unissued shares in the Company. On 12 November 2004, shareholders resolved to grant to Mr Johnston, the Chief Executive Officer, Performance Rights to receive a maximum of 179,375 options over unissued shares in the Company. Performance Rights with an entitlement to 571,604 options over unissued shares in the Company granted to senior executives and the Chief Executive Officer, under contracts of employment, lapsed during the financial period as a result of performance criteria not being met under the Long Term Incentive Plan or the resignation of the managers concerned.

The actual number of performance rights/options that may be granted to Mr Johnston will depend on ranking the performance of the Company against its peer group of resource companies over the period 1 January 2006 to 31 December 2006, as measured by the Company's Total Shareholder Return performance. **Total Shareholder Return (TSR)** is defined as *'share growth plus all other returns or payments to shareholders, i.e. dividends'* and is essentially a measure of the average movement in shareholder return over the period 1 January 2006 to 31 December 2006.

The following table lists the performance targets that apply and the weighting given to their achievement in determining the number of Performance Rights available to Mr Johnston.

Performance Target	Below 50 th Percentile	Ranking at or above 50 th percentile	Ranking at or above 60 th percentile	Ranking at or above 75 th percentile
TSR	Nil	50%	70%	100%

If the performance criteria are satisfied and not before 1 January 2008, on application of the Performance Rights, the options will be granted to Mr Johnston for nil consideration and are exercisable on or before 31 December 2010 in all or part of the entitlement. No funds will be raised by the Company on the grant of the Performance Rights or on the exercise of the options.

The Performance Rights do not attract the benefits of share ownership including dividend or voting entitlements prior to vesting.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

4 Key management personnel compensation (cont'd)

ASX best practice recommendation 9.4 recommends companies seek shareholder approval of equity-based reward schemes for executives. The Company's current equity-based reward scheme was introduced in 2003, with identical terms (other than a longer period until exercise) as for the options for the Chief Executive Officer which were extensively disclosed to shareholders in the Notice of Meeting for the 2003 Annual General Meeting and again, including performance targets, in the Notice of Meeting for the 2004 Annual General Meeting. It is not proposed to otherwise present the scheme to shareholders for approval.

Service Agreements

The compensation and other terms of employment for the Chief Executive Officer is formalised in a service contract. Under this agreement Mr Johnston is eligible for performance-related cash bonuses, other benefits including a car allowance, and, if approved by shareholders, grant of share options as part of an LTI scheme. If the Company does not agree to renew or extend Mr Johnston's employment contract beyond the existing term of his contract, being 31 October 2006, Mr Johnston's employment will cease and the Company shall pay to Mr Johnston the amount of \$1.5 million. In such circumstances, Mr Johnston shall retain any options or shares provided to him under his employment contract. These payments and benefits are not payable if Mr Johnston's employment contract is terminated prior to 31 October 2006. If Mr Johnston's employment contract is terminated by the Company between 3 December 2004 and 31 October 2006, the Company is required to pay Mr Johnston an amount of \$1.5 million. In such circumstances, Mr Johnston shall also be entitled to exercise any options issued to him and which are capable of vesting over the 12 month period following the termination date.

Other than Mr Johnston, all management and other employees are employed under standard employment contracts with notice periods by either party of three months for senior executives and one month otherwise.

Chief Executive Officer Compensation

At the Annual General Meeting held on 12 November 2004, shareholders resolved to authorise the Board of Directors to grant the right to Mr Johnston to apply for up to a maximum of 179,375 performance rights exercisable into options over unissued shares in the Company. The extent of the final allocation that will be made to Mr Johnston will be determined in July 2006 on, generally, the same principles as the offer made to senior employees under Minara's Executive LTI Scheme, as disclosed, including performance targets, in the Notice of Meeting for the 2004 Annual General Meeting. Due to a failure to meet various performance targets, the maximum number of Performance Rights remaining available to Mr Johnston at the date of this report, with a potential entitlement to options over unissued ordinary shares under option are 53,813.

Superannuation

Minara has established accumulation superannuation accounts for its employees. The Company contributes eleven percent of Base Salary into the employee's account, which is vested in accordance with Australian superannuation legislation.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

4 Key management personnel compensation (cont'd)

The aggregate of the key management personnel compensation of the consolidated entity is set out below:

	Consolidated	
	2005	2004
	\$	\$
Short-term benefits	3,355,383	2,010,995
Post-employee benefits	196,540	143,988
Other	-	-
Termination benefits	150,808	-
Share-based payments	75,095	75,095
	<u>3,777,826</u>	<u>2,230,078</u>

Details of Compensation

Details of the nature and amount of each major element of the compensation of each of the key management of the Company receiving the highest emoluments for the reporting period to 31 December 2005 are:

Details of Compensation for key management personnel

Details of the nature and amount of each major element of the compensation of each of the key management of the Company receiving the highest emoluments for the reporting period to 31 December 2005 are:

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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2005	Name	Position held	Period of responsibility	Short-term benefits			Post-employee benefits			Share-based payments		Total
				Salary, fees, ST compensated absences	ST Bonuses (iv)	Non-Monetary benefits	Other	Pension, Superannuation	Termination benefits	Other	Equity settled	
	Mr J Campbell (i)	Chairman	01/01/05 to 31/12/05	185,000	-	-	-	18,500	-	-	-	203,500
	Mr PB Johnston	Chief Executive Officer	01/01/05 to 31/12/05	1,202,298	250,000	55,326	-	11,816	-	-	-	1,519,440
	Mr JA Morrison	Director	01/01/05 to 31/12/05	72,500	-	-	-	7,250	-	-	-	79,750
	Mr I Glasenberg (ii)	Director		-	-	-	-	-	-	-	-	-
	Mr W Strothotte (ii)	Director		-	-	-	-	-	-	-	-	-
	Mr M Macpherson	Director	01/01/05 to 31/12/05	72,500	-	-	-	7,250	-	-	-	79,750
	Mr SB Dennis	Chief Financial Officer	01/01/05 to 18/12/05	327,061	25,000	7,701	-	35,977	-	150,808	17,067	563,614
	Mr N Meadows	General Manager	01/01/05 to 31/12/05	375,500	29,000	-	-	41,305	-	-	17,067	462,872
	Mr J Quayle	Company Secretary	01/01/05 to 31/12/05	260,000	35,000	5,033	-	28,600	-	-	17,067	345,700
	Mr J Cooke	Business Development	01/01/05 to 31/12/05	205,000	20,000	-	-	22,550	-	-	17,067	264,617
	Mr P Sims	Commercial Manager	01/01/05 to 31/12/05	211,750	16,714	-	-	23,292	-	-	6,827	258,583
				2,911,609	375,714	68,060	-	196,540	-	150,808	-	3,777,826

(i) Mr Campbell received his base Directors' fees in the form of superannuation contributions.

(ii) Messrs Glasenberg and Strothotte elected not to receive directors' fees as they are nominee Directors of major shareholders.

(iii) The fair value of the options are calculated at the date of grant using a Binomial model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period.

The valuation assumptions were as follows: Share price 102 cents, risk free rate 4.88%, volatility 50% and dividend yield nil.

(iv) STI cash bonus paid in the reporting period to 31 December 2005 in respect of performance in 2004/05.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

4 Key management compensation (cont'd)

2004 Name	Position held	Period of responsibility	Short-term benefits			Post-employee benefits			Share-based payments		Total	
			Salary, fees, ST compensated absences	ST Bonuses	Non-Monetary benefits	Other	Pension, Superan- nuation	Termination benefits	Other	Shares		Options
Mr J Campbell	Chairman	01/07/04 to 31/12/04	90,000	-	-	-	-	9,000	-	-	-	99,000
Mr PB Johnston	Chief Executive Officer	01/07/04 to 31/12/04	508,201	250,000	26,724	-	-	45,965	-	-	-	830,890
Mr JA Morrison	Director	01/07/04 to 31/12/04	35,000	-	-	-	-	3,500	-	-	-	38,500
Mr I Glasenberg	Director		-	-	-	-	-	-	-	-	-	-
Mr W Strothotte	Director		-	-	-	-	-	-	-	-	-	-
Mr M Macpherson	Director	01/07/04 to 31/12/04	35,000	-	-	-	-	3,500	-	-	-	38,500
Mr SB Dennis	Chief Financial Officer	01/07/04 to 31/12/04	166,000	130,000	2,220	-	-	17,983	-	-	17,067	333,270
Mr N Meadows	General Manager	01/07/04 to 31/12/04	175,000	30,000	2,220	-	-	18,992	-	-	17,067	243,279
Mr J Quayle	Company Secretary	01/07/04 to 31/12/04	130,000	75,000	2,220	-	-	14,083	-	-	17,067	238,370
Mr J Cooke	Business Development	01/07/04 to 31/12/04	100,000	36,000	2,220	-	-	10,833	-	-	17,067	166,120
Mr M Ashby	Legal Counsel	01/07/04 to 31/12/04	82,250	-	2,220	-	-	8,914	-	-	-	93,384
Mr P Sims	Commercial Manager	01/07/04 to 31/12/05	103,500	25,000	2,220	-	-	11,218	-	-	6,827	148,765
			1,424,951	546,000	40,044	-	-	143,988	-	-	75,095	2,230,078

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

4 Key management compensation (cont'd)

Options and Rights holdings

Name	Held						
	No. at 1 Jan 2005	Granted as compensation	Exercised	No. at 31 Dec 2005	Vested - 31 Dec 2005	Vested and Exercisable - 31 Dec 2005	Vested and Unexercisable - 31 Dec 2005
Mr J Campbell	-	-	-	-	-	-	-
Mr PB Johnston	-	-	-	-	-	-	-
Mr JA Morrison	-	-	-	-	-	-	-
Mr I Glasenberg	-	-	-	-	-	-	-
Mr W Strothotte	-	-	-	-	-	-	-
Mr M Macpherson	-	-	-	-	-	-	-
Mr SB Dennis	266,667	-	266,667	-	-	-	-
Mr N Meadows	266,667	-	266,667	-	-	-	-
Mr J Quayle	266,667	-	266,667	-	-	-	-
Mr J Cooke	266,667	-	266,667	-	-	-	-
Mr P Sims	106,667	-	106,667	-	-	-	-
	1,173,335	-	1,173,335	-	-	-	-

Equity Holdings

Name	Held			
	No. at 1 Jan 2005	Granted as compensation	Received on exercise of Options	Equity acquired (non-option related) No. at 31 Dec 2005
Mr J Campbell	-	-	-	-
Mr PB Johnston	1,333,333	-	-	1,333,333
Mr JA Morrison	-	-	-	-
Mr I Glasenberg	-	-	-	-
Mr W Strothotte	-	-	-	-
Mr M Macpherson	-	-	20,000	20,000
Mr SB Dennis	-	-	-	-
Mr N Meadows	-	-	-	-
Mr J Quayle	-	-	-	-
Mr J Cooke	-	-	-	-
Mr P Sims	-	-	-	-
	1,333,333	-	20,000	1,353,333

Mr I Glasenberg and Mr W Strothotte hold an indirect interest in 234,641,773 ordinary shares

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
5 Remuneration of auditors				
Auditor of the parent entity				
Audit and review of the financial report	200,000	100,000	114,500	65,000
Taxation services:				
Tax compliance and advisory	-	115,135	-	115,135
Research and development allowance concession	-	87,242	-	-
Other non-audit services - assurance services	-	16,400	-	16,400
	<u>200,000</u>	<u>318,777</u>	<u>114,500</u>	<u>196,535</u>

The auditor of Minara Resources Limited for the 2005 financial period was Deloitte Touche Tohmatsu, with KPMG Australia being the auditors during the 2004 financial period.

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
6 Trade and other receivables				
Current				
Trade debtors (i)	45,315	30,690	-	-
Allowance for doubtful debts	-	(31)	-	-
Term deposits (ii)	542	9,422	105	73
Other receivables	10,589	6,183	40	-
Receivables from controlled entities	-	-	5,504	4,855
	<u>56,446</u>	<u>46,264</u>	<u>5,649</u>	<u>4,928</u>
Non-Current				
Term deposits (ii)	848	848	848	848
Receivables from controlled entities	-	-	117,649	203,879
Allowance for diminution in receivable	-	-	(10,593)	(52,747)
Other receivables	2,139	10,645	-	10,645
Allowance for doubtful debts	-	(10,645)	-	(10,645)
	<u>2,987</u>	<u>848</u>	<u>107,904</u>	<u>151,980</u>

(i) Trade debtors include amounts owed to the consolidated entity from the sale of finished product to Glencore under nickel and cobalt off take agreements of \$45,315,427 (2004: \$30,732,125). All sales under the off-take agreements are on normal commercial terms and conditions.

(ii) Term deposits also include other secured deposits as follows:

Amounts secured by bank issued				
indemnity guarantees	542	9,422	105	73
Other deposits	848	848	848	848

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
7 Inventories				
Current				
Raw materials - at cost	48,637	46,137	-	-
Raw materials written down	(8,038)	(6,642)	-	-
	40,599	39,495	-	-
Ore stocks – at cost	9,619	7,165	-	-
Work in progress - at cost	6,041	12,597	-	-
Finished goods - at cost	3,805	2,763	-	-
Total current inventories	60,064	62,020	-	-
Non-Current				
Ore stocks	63,535	44,195	-	-
Ore stocks written down	(6,563)	(2,783)	-	-
Total non-current inventories (i)	56,972	41,412	-	-
Total Inventories	117,036	103,432	-	-
(i) Reconciliation of non-current ore stocks				
Ore stocks - at cost	49,670	37,168	-	-
Ore stocks - net realisable value	7,302	4,244	-	-
	56,972	41,412	-	-
8 Other assets				
Current				
Prepayments	259	4,352	-	-
Other	206	71	-	-
	465	4,423	-	-
Non-Current				
Nickel prepayments	-	-	455,455	450,896
Impairment in nickel prepayments	-	-	(159,126)	(154,567)
Secured deposits (i)	858	858	-	-
	858	858	296,329	296,329
(i) Secured by a bank issued indemnity guarantee.				
9 Other non-current financial assets				
Investment in controlled entities – at cost	-	-	317,539	317,539
Impairment of investment in controlled entities	-	-	(227,227)	(317,539)
	-	-	90,312	-

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

10 Property, plant and equipment

	Consolidated			Company		
	Plant and equipment at cost	Equipment under finance lease at cost	Total	Plant and equipment at cost	Equipment under finance lease at cost	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount						
Balance at 1 July 2004	451,125	37,713	488,838	1,045	996	2,041
Additions	20,298	-	20,298	-	-	-
Disposals	(9,686)	-	(9,686)	-	-	-
Transfer of amortisation to mine properties	3,447	-	3,447	-	-	-
Balance at 1 January 2005	465,184	37,713	502,897	1,045	996	2,041
Additions	62,671	-	62,671	24	-	24
Disposals	(8,173)	-	(8,173)	-	-	-
Write offs	(1,220)	-	(1,220)	-	-	-
Balance at 31 December 2005	518,462	37,713	556,175	1,069	996	2,065
Accumulated depreciation/ amortisation and impairment						
Balance at 1 July 2004	(131,415)	(18,246)	(149,662)	(1,045)	(996)	(2,041)
Disposals	-	-	-	-	-	-
Depreciation expense	(11,956)	(1,399)	(13,355)	-	-	-
Balance at 1 January 2005	(143,371)	(19,645)	(163,017)	(1,045)	(996)	(2,041)
Disposals / write offs	-	-	-	-	-	-
Depreciation expense	(25,080)	(2,798)	(27,878)	-	-	-
Balance at 31 December 2005	(168,451)	(22,443)	(190,894)	(1,045)	(996)	(2,041)
Net book value						
As at 31 December 2004	321,811	18,068	339,879	-	-	-
As at 31 December 2005	350,012	15,269	365,281	24	-	24

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

11 Mine assets

	Consolidated			Company		
	Mine properties at cost	Development at cost	Total	Mine properties at cost	Development at cost	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount						
Balance at 1 July 2004	87,009	24,020	111,029	-	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance at 1 January 2005	87,009	24,020	111,029	-	-	-
Additions	3,435	-	3,435	-	-	-
Disposals	-	-	-	-	-	-
Balance at 31 December 2005	90,444	24,020	114,464	-	-	-
Accumulated depreciation/ amortisation and impairment						
Balance at 1 July 2004	(16,808)	-	(16,808)	-	-	-
Amortisation expense	(1,720)	-	(1,720)	-	-	-
Transfer of amortisation from property, plant & equipment	(3,447)	-	(3,447)	-	-	-
Balance at 1 January 2005	(21,975)	-	(21,975)	-	-	-
Disposals	-	-	-	-	-	-
Amortisation expense	(4,395)	-	(4,395)	-	-	-
Balance at 31 December 2005	(26,370)	-	(26,370)	-	-	-
Net book value						
As at 31 December 2004	65,034	24,020	89,054	-	-	-
As at 31 December 2005	64,074	24,020	88,094	-	-	-

Aggregated depreciation allocated during the year is recognised as an expense and disclosed in note 2 to the financial statements.

As at 31 December the consolidated entity has capitalised \$5,207 of exploration and evaluation expenditure, all of which has been impaired.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
12 Trade and other payables				
Current				
Trade payables & accruals	50,330	43,583	489	897
Amounts owed to controlled entities (i)	-	-	965	966
Other payables	328	796	63	-
	<u>50,658</u>	<u>44,379</u>	<u>1,517</u>	<u>1,863</u>
Non-Current				
Other payables (ii)	32,794	31,097	-	-
Amounts owed to controlled entities (i)	-	-	1,835	1,635
	<u>32,794</u>	<u>31,097</u>	<u>1,835</u>	<u>1,635</u>
(i) The amounts are unsecured, interest free and repayable on demand.				
(ii) Includes an amount of \$26,096,921 (2004: \$26,096,921) payable to Amshell Pty Limited, a subsidiary of Glencore, and relates to the acquisition of Abednego Nickel Pty Limited.				
13 Borrowings				
Current				
At amortised cost (2004: cost):				
Secured loan (i)	4,090	3,699	-	-
Finance lease liabilities (note 23)	8,342	3,223	-	27
	<u>12,432</u>	<u>6,922</u>	<u>-</u>	<u>27</u>
Non-Current				
Secured loan (i)	16,730	4,383	-	-
Finance lease liabilities (note 23)	8,538	16,886	-	6
	<u>25,268</u>	<u>21,269</u>	<u>-</u>	<u>6</u>
(i) The loan is secured by a specific charge (Equipment mortgage) over the mining equipment at an average interest rate of 6.01%. The secured loan is denominated in USD (United States Dollars).				
14 Financing arrangements				
Total facilities available:				
Environmental Bonds	21,000	20,000	-	-
	<u>21,000</u>	<u>20,000</u>	<u>-</u>	<u>-</u>
Facilities utilised at balance date				
Environmental Bonds	19,416	9,500	-	-
	<u>19,416</u>	<u>9,500</u>	<u>-</u>	<u>-</u>
Facilities not utilised at balance date				
Environmental Bonds	1,584	10,500	-	-
	<u>1,584</u>	<u>10,500</u>	<u>-</u>	<u>-</u>

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
15 Provisions				
Current				
Employee benefits	2,534	2,490	54	116
Other	-	-	-	-
	<u>2,534</u>	<u>2,490</u>	<u>54</u>	<u>116</u>
Non-Current				
Employee benefits	1,942	2,051	124	15
Provision for rehabilitation	23,806	21,488	-	-
Other	-	-	-	-
	<u>25,748</u>	<u>23,539</u>	<u>124</u>	<u>15</u>
The present value of employee entitlements not expected to be settled within the twelve months from balance date have been calculated using the following weighted averages:				
Assumed rate of increase in wage and salary rates (%)	3	3	3	3
Discount rate (%)	5	5	5	5
Settlement term (years)	5	5	5	5
16 Contributed Equity				
465,082,033 fully paid ordinary shares (2004: 463,482,030)	<u>773,467</u>	<u>771,938</u>	<u>773,467</u>	<u>771,938</u>

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	Company		Company	
	2005 No.'000	2005 \$'000	2004 No.'000	2004 \$'000
Fully paid ordinary shares				
Balance at beginning of financial period	463,482	771,938	461,505	862,004
Exercise of options	1,600	1,120	644	1,430
Transfer from employee equity-settled option reserve (note 17)	-	409	1,333	1,200
Capital Return (i)	-	-	-	(92,696)
Balance at end of financial period	<u>465,082</u>	<u>773,467</u>	<u>463,482</u>	<u>771,938</u>
Fully paid ordinary shares carry one vote per share and carry the right to dividends.				

- (i) The Company issued a capital return of \$0.20 per ordinary share, pursuant to a resolution passed by shareholders at the annual general meeting on 12 November 2004.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
17 Reserves				
Employee equity-settled benefits	-	307	-	307
	-	307	-	307
Employee equity-settled benefits reserve				
Balance at beginning of financial year	307	205	307	205
Share-based payment	102	102	102	102
Transfer to share capital on exercise of options	(409)	-	(409)	-
Balance at end of financial year	-	307	-	307
18 Accumulated Losses				
Balance at beginning of financial period	(272,703)	(332,502)	(315,026)	(318,777)
Adjustment in tax base of property, plant and equipment		3,442		
Net profit attributable to members of the parent entity	42,965	56,357	85,128	3,444
Dividends – 10c per fully paid shares (note 20)	(46,478)	-	(46,478)	-
Balance at end of financial period	(276,216)	(272,703)	(276,376)	(315,026)

	Consolidated	
	2005 Cents per share	2004 Cents per share
19 Earnings per share		
Basic earnings per share	9.25	12.20
Diluted earnings per share	9.25	12.18

The earnings used in the calculation of basic earnings and diluted earnings per share are as follows:

	2005 \$'000	2004 \$'000
Net Profit	42,965	56,357

Basic earnings per share

Weighted average number of ordinary shares for the purposes of basic earnings per share

	2005 No.	2004 No.
	464,282,030	461,773,585

Diluted earnings per share

Weighted average number of ordinary shares for the purposes of diluted earnings per share

	464,282,030	462,768,181
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MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated	
	2005 No.	2004 No.
19 Earnings per share (cont'd)		
(i) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:		
Weighted average number of ordinary shares used in the calculation of basic EPS	464,282,030	461,773,585
Shares deemed to be issued for no consideration in respect of:		
Employee options	-	994,596
Weighted average number of ordinary shares used in the calculation of diluted EPS	464,282,030	462,768,181

20 Dividends

Recognised amounts

Fully paid ordinary shares

	2005		2004	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Final dividend:				
Unfranked (paid 18 March 2005)	5	(23,175)	-	-
Interim dividend:				
Unfranked (paid 23 September 2005)	5	(23,303)	-	-
		(46,478)		-

The Company does not have any franking credits as at 31 December 2005.

21 Commitments for expenditure

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a) Capital expenditure commitments				
Capital expenditure requisitioned but not provided and payable at balance date is:				
<u>Plant and equipment</u>				
Not longer than 1 year	8,080	36,562	-	-
Longer than 1 year but not longer than 2 years	-	-	-	-
Longer than 2 years but not longer than 5 years	-	-	-	-
Longer than 5 years	-	-	-	-
	8,080	36,562	-	-

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
21 Commitments for expenditure (cont'd)				
(b) Exploration Expenditure Commitments				
In order to maintain current rights of tenure to exploration tenements, the Company and the Consolidated Entity are required to perform minimum exploration work to meet the minimum expenditure requirements specified by the State Government of Western Australia. These obligations are subject to renegotiation when application for a mining lease is made out and at other times. The commitments not provided and payable at balance date are:				
Not longer than 1 year	7,111	7,221	4,696	4,696
Longer than 1 year but not longer than 2 years	7,066	9,747	4,696	4,696
Longer than 2 years but not longer than 5 years	25,262	21,664	14,088	14,088
Longer than 5 years	74,491	60,604	-	-
	<u>113,930</u>	<u>99,236</u>	<u>23,480</u>	<u>23,480</u>
Finance lease commitments are payable as follows:				
Not longer than one year	9,410	4,531	-	29
Longer than one year but not longer than two years	9,012	9,416	-	6
Longer than 2 years but not longer than 5 years	-	9,014	-	-
Longer than 5 years	-	-	-	-
	<u>18,422</u>	<u>22,961</u>	<u>-</u>	<u>35</u>
Future Finance Charges	(1,542)	(2,852)	-	(2)
	<u>16,880</u>	<u>20,109</u>	<u>-</u>	<u>33</u>
Lease liabilities provided for in the financial statements				
Current (note 13)	8,342	3,223	-	27
Non-Current (note 13)	8,538	16,886	-	6
	<u>16,880</u>	<u>20,109</u>	<u>-</u>	<u>33</u>
The Company has entered into finance leases for the Calcrete and co-generation power plan and the village on normal commercial terms.				
d) Other Commitments				
Other commitments relating to native title claimants and other property and access agreements not provided and payable at balance date are:				
Not longer than 1 year	720	1,179	-	-
Longer than 1 year but not longer than 2 years	1,011	696	-	-
Longer than 2 years but not longer than 5 years	8,931	2,760	-	-
Longer than 5 years	40,499	13,600	-	-
	<u>51,161</u>	<u>18,235</u>	<u>-</u>	<u>-</u>
The Joint Venture has commitments relating to camp facilities, handling facilities, grade control drilling and calcrete mining and processing, maintenance contracts and industrial gas supply which predominantly relate to the earnings of revenue in the ordinary course of business.				

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

22 Contingent liabilities and contingent assets

(a) Contingent Liabilities

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The Directors are not aware of any circumstances or information which would lead them to believe that these liabilities will materialise and consequently no provisions are included in the financial statements in respect of these matters.

(ii) The consolidated entity has entered into agreements with numerous native title groups. Where agreements have not been reached with claimants the consolidated entity and the Project are adhering to the procedures as laid down in the Native Title Act. The consolidated entity is confident that any remaining tenements, which are now minimal, required for the Project will be granted.

On 16 August 2005, Minara was served with a writ and statement of claim by five people claiming to represent the Goolburthunoo Native Title Group (Goolburthunoo) and the NEIB Aboriginal Corporation (NEIB).

The claim is in relation to monies, totalling \$11,640,134, the Goolburthunoo and NEIB allege are due to be paid pursuant to an agreement, dated 8 July 1998, between the Goolburthunoo and Anaconda Nickel Ltd. The agreement relates to tenements now held by Murrin Murrin Holdings Pty Ltd and Glenmurrin Pty Ltd.

Minara has also been informed that IMF (Australia) Limited, an ASX listed litigation funder, has entered into an agreement with the Goolburthunoo and the NEIB to fund the claim made against Minara.

Minara is vigorously defending these proceedings.

On 6 September 2005, Minara was served with a writ and statement of claim by persons claiming to represent the Wutha Native Title Claimant Group alleging breaches of an agreement entered into with Anaconda Nickel Ltd on 6 September 1996. Minara is vigorously defending these proceedings.

On 28 September 2005, Minara received a letter on behalf of the Bibila Lungkuttjarra Native Title Claimant Group (Bibila Lungkuttjarra) seeking damages arising out of alleged breaches of an agreement between the Bibila Lungkuttjarra and Anaconda Nickel 1997. The Bibila Lungkuttjarra further alleged that Minara had breached certain conditions attaching to specified mining leases. Minara rejected these demands and indicated that any action brought by the Bibila Lungkuttjarra will be vigorously defended. No action has been brought by Bibila Lungkuttjarra.

(iii) The consolidated entity has provided indemnity guarantees in favour of the Minister of Mines of \$20,048,580 (2004: \$18,922,000). The guarantees are secured by \$633,702 (2004: \$9,422,000) of term deposits. The Project has provided guarantees to third parties as satisfaction of contractual obligations of \$858,000 (2004: \$858,000).

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

23 Leases

Finance lease liabilities

	Minimum future lease payments			Present value of minimum future lease payments		
	Consolidated		Company	Consolidated		Company
	2005 \$'000	2004 \$'000	2005 \$'000	2005 \$'000	2004 \$'000	2004 \$'000
No later than 1 year	9,410	4,531	-	9,410	4,531	-
Later than 1 year and not later than 5 years	9,012	18,430	-	8,583	16,717	-
Later than five years	-	-	-	-	-	-
Minimum lease payments*	18,422	22,961	-	17,993	21,248	-
Less future finance charges	(1,542)	(2,852)	-	(1,113)	(1,139)	(2)
Present value of minimum lease payments	16,880	20,109	-	16,880	20,109	33
Included in the financial statements as:						
Current borrowings (note 13)				8,342	3,223	27
Non-current borrowings (note 13)				8,538	16,886	6
				16,880	20,109	33

* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

24 Particulars In Relation To subsidiaries

Name	Note	Class of Share	Interest Held %	
			2005	2004
Minara Resources Holdings Pty Ltd		Ord	100	100
Murrin Murrin Holdings Pty Limited		Ord	100	100
Murrin Murrin Operations Pty Ltd	1,2	Ord	100	100
Anaconda Pastoral Holdings Pty Ltd	1	Ord	60	60
Murrin Murrin East Pty Ltd	1	Ord	100	100
Yundamindra Pastoral Holdings Pty Ltd	1	Ord	60	60
Murrin Murrin Investments Pty Ltd	1	Ord	60	60
Abednego Nickel Pty Ltd	1	Ord	100	100
Canning Basin Investments Pty Ltd	1	Ord	100	100
Jenlore Pty Ltd	1	Ord	100	100
MGM Gold Pty Ltd	1	Ord	100	100
Murrin Murrin Resources Pty Ltd	1	Ord	100	100
Mount Margaret Nickel Pty Ltd	1	Ord	60	100
Anaconda Exploration Pty Ltd	1	Ord	100	100
Quartz Water Leonora Pty Ltd	1	Ord	100	100
Pilbara Nickel Pty Ltd	1	Ord	100	100
Leonora Metals Pty Ltd	1	Ord	100	100
Rentals (Calcrete) Pty Ltd	1	Ord	60	60
Rentals (Cogen) Pty Ltd	1	Ord	60	60
Rentals (Village) Pty Ltd	1	Ord	60	60

1. These companies are small proprietary companies, incorporated in Australia, as defined by the Corporations Act and are not required to be audited for statutory purposes.

2. Manager of the Murrin Murrin Joint Venture.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

25 Jointly controlled operations and assets

MMH has a 60% (2004: 60%) interest in the Project. Murrin operations is the operator of the Project.

The Consolidated Entity has incurred expenditure on the Murrin Murrin East Project in a 60/40 joint venture arrangement with Glencore. The expenditure relates to feasibility studies on exploration and evaluation interests originally owned by Murrin Murrin East Pty Ltd ("MME") a wholly owned controlled entity of the Company.

Included in the assets of the Consolidated Entity are the following items which represent the Consolidated Entity's interest in the assets employed in the Murrin Murrin Joint Venture and Murrin Murrin East Project, recorded in accordance with the accounting policies described in note 1.

The consolidated entity's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the financial statements and consolidated financial statements under their respective asset categories:

	Consolidated	
	2005 \$'000	2004 \$'000
Current assets		
Cash	4,251	7,427
Receivables	7,016	3,165
Inventories	56,259	59,258
Other	461	5,023
Total current assets	67,987	74,873
Non-current assets		
Receivables	3,791	-
Inventories	56,972	41,475
Property plant and equipment	362,115	339,879
Mining assets	88,094	89,054
Exploration evaluation and development	-	-
Other	858	858
Total non-current assets	511,830	471,266
Total assets	579,817	546,139

Contingent liabilities and capital commitments

The capital commitments and contingent liabilities arising from the consolidated entity's interests in joint ventures are disclosed in notes 21 and 22 respectively.

26 Segment information

The consolidated entity operates in Western Australia in the nickel mining industry.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

27 Related party disclosures

(a) Transactions with other related parties

Glencore International AG "Glencore"

In January 2002, MMH entered into a Nickel Off take Agreement ("NOA") and a Cobalt Off take Agreement ("COA") with Glencore. The NOA allows Glencore to purchase up to 24,000 tonnes of nickel per annum from MMH, for a period up to 30 November 2006, at a 4% discount to the prevailing London Metal Exchange quoted price. The COA allows Glencore to purchase MMH's entire share of cobalt produced by the Project for a period up to 30 November 2006, at a 3.5% discount on the market sale price subject to a minimum/maximum discount of 30c/lb and 50c/lb respectively. The NOA and COA were approved by shareholders at an extraordinary general meeting on 9 January 2002. On the 30 November 2005, both the NOA and the COA were extended for a further 5 years from 1 December 2006.

On 30 November 2005, Minara reached a commercial resolution with Glencore in respect to alleged breaches by Minara arising from the construction phase of the Murrin Murrin Nickel Cobalt plant. Under the settlement, Glencore has discontinued the claim (the writ of US\$26m plus interest of US\$10m). Minara agreed to extend the area subject to the Murrin Murrin JV from 60km to 200km.

Key managements personnel compensation are disclosed at note 4 together with the equity holdings of all related parties.

Wholly Owned Group

At 31 December 2005, the balance owing to Minara from MMH under the forward sale agreement was 24,176 (2004: 24,176) tonnes of nickel. The forward sales contracts are on an arms length basis in US Dollars.

All receivables and payables with related entities are unsecured, interest free, and repayable on demand.

Other Related Parties

The Company provides corporate and other administration services to its controlled entities and the Project from which it earns services fees. These transactions are in the normal course of business and on normal terms and conditions. These services amounted to \$3,660,000 (2004: \$1,500,000). Glencore as the owner of 40% of the project would have taken up 40% of this charge being \$1,440,000 (2004: \$600,000).

The project purchased ore from Canning Basin Investments Pty Ltd, which is owned 60% by the Consolidated entity. The agreement is based on the unit price per tonne processed by the Murrin Murrin Joint Venture. During the year, Canning Basin Investments Pty Ltd received \$3,652,247 from the project for ore processed (2004: \$nil).

The Project provides finance, accounting, information technology, investor relations and other administration services to the Company and its controlled entities from which it earns service fees. These transactions amounted to \$nil (2004: \$1,713,898) and are in the normal course of business and on normal terms and conditions.

(b) Parent entities

The parent entity in the consolidated entity is Minara Resources Limited.

28 Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
29 Notes to the cash flow statement				
(a) Reconciliation of cash and cash equivalents				
Cash and cash equivalents	72,022	103,213	350	7,606

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(b) Reconciliation of profit for the period to net cash flows from operating activities				
Profit for the period	42,965	56,357	85,128	(3,444)
adjusted for non cash items;				
Depreciation and amortisation	32,272	12,222	-	-
Allowance for doubtful debts	-	176	-	-
Unrealised foreign exchange (gains)/losses	726	103	-	-
Allowance for inventory obsolescence	1,390	580	-	-
Medium grade ore write-down	6,563	2,783	-	-
Other inventory adjustments	3,653	(1,629)	-	-
Employee bonus share issue	102	(765)	-	(9)
Reversal of property plant and equipment provision	-	12,711	-	-
Loss on sale of mining equipment	4,716	-	-	-
Accrual for native title	659	301	-	-
Write back of accruals	-	(558)	-	-
Write back of diminution of investment in controlled investments	-	-	(90,312)	-
Ore royalty accrual	(2,332)	-	-	-
Provision for employee costs	-	702	-	6
Write back of provision for license fees	-	(6,576)	-	-
Outside equity interest	871	-	-	-
Changes in net assets and liabilities:				
(Increases) / decreases in assets:				
Receivables	(12,321)	11,675	(73)	(39)
Inventory	(25,209)	(23,400)	-	-
Other assets	3,958	1,498	2,071	-
Increases / (decreases) in liabilities:				
Trade and other payables	6,039	(3,039)	(1,081)	737
Deferred tax balances	(3,101)	58	(15)	-
Net cash provided from / (used in) operating activities	60,951	63,199	(4,282)	(2,749)

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(c) Non Cash Financing and Investment Activities

There were no non-cash financing and investing activities undertaken by the consolidated entity during the financial period.

	Consolidated		Company	
	2005	2004	2005	2004
	\$A '000	\$A '000	\$A '000	\$A '000
30 Amounts Receivable/Payable in Foreign Currencies				
Amounts receivable/(payable) in foreign currency which are not effectively hedged:				
United States Dollars (equivalent):				
Cash	10,404	28,356	-	-
Current - Receivables	45,315	30,690	-	-
Current - Payables	-	3,699	-	-
Non current - Payables	-	4,383	-	-

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

31 Financial instruments

Derivatives and Other Financial Instruments

The Consolidated Entity's activities expose it to changes in interest rates, foreign exchange rates and commodity prices. It is also exposed to credit, liquidity and cash flow risks from its operations. The Board has confirmed policies and procedures in each of these areas to manage these exposures. Management reports to the Board on a monthly basis as to the monitoring of the policies in place, and adherence to the policies is strictly observed.

The Consolidated Entity may use derivative financial instruments to hedge cash flows subject to interest rate, foreign exchange rate and commodity price risks. Derivative financial instruments are not held for speculative purposes. Exposures including related derivative hedges, are reported to the Board on a monthly basis. The Consolidated Entity only deals with financial market intermediaries with an acceptable credit rating determined by a recognised rating agency. Financing facilities and operating cash flows are managed to ensure that the Consolidated Entity is not exposed to any liquidity risks.

The Consolidated Entity has not entered into any new forward foreign exchange contracts, forward commodity exchange contracts or put and call options in the financial period.

(a) Financial risk management objectives

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Foreign currency risk management

In the current and prior financial period, the Consolidated Entity has not entered into any financial instrument to hedge anticipated sales denominated in United States Dollars ("USD").

(d) Interest rate risk management

The Consolidated Entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

31 Financial instruments (cont'd)

2005	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates				Non interest bearing	Total		
									Non interest bearing	Total
			Less than 1 year	1-2 years	2-3 years	3-4 years				
%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000			
Financial assets:										
Cash assets	5.96	72,022	-	-	-	-	72,022			
Receivables	-	-	-	-	-	-	58,508			
Receivables	4.80	1,400	-	-	-	-	1,400			
Other – secured deposits	4.80	848	-	-	-	-	848			
		74,270	-	-	-	-	58,508			
Financial liabilities:										
Payables	-	-	-	-	-	-	83,452			
Lease liabilities	6.00	-	8,342	2,092	-	-	16,880			
Secured loans	6.01	-	4,090	8,180	370	-	20,820			
Provisions	-	-	-	-	-	-	28,282			
		-	12,432	10,272	370	-	111,734			
		-	14,626	10,272	370	-	149,434			

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

31 Financial instruments (cont'd)

2004	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates					Non interest bearing	Total
			Less than 1 year	1-2 years	2-3 years	3-4 years	4+ years		
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial assets:									
Cash assets	5.50	103,213	-	-	-	-	-	103,213	
Receivables	-	-	-	-	-	-	36,842	36,842	
Receivables	4.80	9,422	-	-	-	-	-	9,422	
Other – secured deposits	4.80	848	-	-	-	-	-	848	
		113,483	-	-	-	-	36,842	150,325	
Financial liabilities:									
Payables	-	-	-	-	-	-	75,476	75,476	
Lease liabilities	6.00	-	6,446	6,446	3,994	-	-	20,109	
Secured loans	3.60	-	4,383	-	-	-	-	8,082	
Provisions	-	-	-	-	-	-	26,029	26,029	
		6,922	10,829	6,446	3,994	-	101,505	129,696	

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

31 Financial instruments (cont'd)

Derivatives and Other Financial Instruments (cont'd)

(e) Commodity Price Risk

In the current financial period and prior year, the Consolidated entity did not enter into any contracts to hedge a proportion of anticipated nickel sales.

(f) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised Financial Instruments

The credit risk on financial assets, excluding investments, of the Consolidated Entity which have been recognised on the balance sheet, is the carrying amount, net of any allowance for doubtful debts.

Credit risk in respect of cash, deposits and receivables is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

(g) Net Fair Values

Recognised Financial Instruments

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

	2005		2004	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash assets	72,022	72,022	103,213	103,213
Receivables	59,908	59,908	46,264	46,264
Other	848	848	848	848
	<u>132,778</u>	<u>132,778</u>	<u>150,325</u>	<u>150,325</u>
Financial liabilities				
Payables	83,452	83,452	75,476	75,476
Lease liabilities	16,880	16,880	20,109	20,109
Secured Loan	20,820	20,820	8,082	8,082
Provisions	28,282	28,282	26,029	26,029
	<u>149,434</u>	<u>149,434</u>	<u>129,696</u>	<u>129,696</u>

All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

Unrecognised Financial Instruments

The Consolidated Entity does not have any unrecognised financial instruments at 31 December 2005 or 31 December 2004.

(f) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
32 Minority interest				
Minority interests in controlled entities comprise:				
Interest in retained profits at the beginning of the financial period	(1,031)	(1,031)	-	-
Interest in profit from ordinary activities after income tax	871	-	-	-
Interest in retained profits at the end of the financial period	(160)	(1,031)	-	-

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 January 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 January 2005 (refer note 1(y)).

An explanation of how the transition from superseded policies to A-IFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(i) Effect of A-IFRS on the balance sheet as at 1 July 2004

Note	Consolidated			Company		
	Super-seded policies* \$'000	Effect of transition to A-IFRS \$'000	A-IFRS \$'000	Super-seded policies* \$'000	Effect of transition to A-IFRS \$'000	A-IFRS \$'000
Current assets						
Cash & cash equivalents	148,861	-	148,861	4,856	-	4,856
Trade & other receivables	48,130	-	48,130	5,693	-	5,693
Inventories	49,558	-	49,558	-	-	-
Other	5,921	-	5,921	-	-	-
Total current assets	252,470	-	252,470	10,549	-	10,549
Non-current assets						
Trade & other receivables	15,882	-	15,882	251,306	-	251,306
Inventories	32,209	-	32,209	-	-	-
Property, plant and equipment (b),(c),(f)	385,841	(46,665)	339,176	-	-	-
Exploration, Evaluation and Development (b)	24,423	(24,423)	-	-	-	-
Mine assets (a),(b)	-	94,424	94,424	-	-	-
Deferred tax assets (*) (g)	9,703	(365)	9,338	-	38	38
Other	858	-	858	296,329	-	296,329
Total non-current assets	468,916	22,971	491,887	547,635	38	547,673
Total assets	721,386	22,971	744,357	558,184	38	558,222
Current liabilities						
Trade & other payables	46,756	-	46,756	5,877	-	5,877
Borrowings	3,213	-	3,213	43	-	43
Provisions	2,013	-	2,013	115	-	115
Total current liabilities	51,982	-	51,982	6,035	-	6,035
Non-current liabilities						
Trade & other payables	50,262	-	50,262	1,435	-	1,435
Borrowings	18,492	-	18,492	14	-	14
Provisions (a)	10,497	11,962	22,459	9	-	9
Deferred tax liabilities (*) (g)	9,330	63,214	72,544	-	-	-
Total non-current liabilities	88,581	75,176	163,757	1,458	-	1,458
Total liabilities	140,563	75,176	215,739	7,493	-	7,493
Net assets	580,823	(52,205)	528,618	550,691	38	550,729
Equity						
Contributed equity	862,004	-	862,004	862,004	-	862,004
Reserves (e)	-	205	205	-	205	205
Accumulated losses (h)	(280,150)	(52,410)	(332,560)	(311,313)	(167)	(311,480)
Parent entity interest	581,854	(52,205)	529,649	550,691	38	550,729
Minority interest	(1,031)	-	(1,031)	-	-	-
Total equity	580,823	(52,205)	528,618	550,691	38	550,729

(*) For the purposes of the reconciliation, deferred tax assets and deferred tax liabilities have not been offset against each other.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

(ii) Effect of A-IFRS on the income statement for the financial year ended 31 December 2004

	Note	Consolidated			Company		
		Super- seded policies*	Effect of transition to A-IFRS	A-IFRS	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from operations		197,959	-	197,959	-	-	-
Cost of Product Sold							
Costs of production		(107,188)	-	(107,188)	-	-	-
Depreciation and amortisation	(a)	(15,075)	3,024	(12,051)	-	-	-
Operating lease expense		(2,045)	-	(2,045)	-	-	-
Royalties		(4,625)	-	(4,625)	-	-	-
Gross profit from the sale of product		69,026	3,024	72,050	-	-	-
Other income		3,748	-	3,748	167	-	167
Finance expenses	(a)	(746)	(855)	(1,601)	(2)	-	(2)
Other expenses	(a),(e)	(3,885)	978	(2,907)	(2,748)	-	(2,748)
Provisions and write downs note(i)	(d)	(1,062)	(13,813)	(14,875)	(861)	-	(861)
Profit before income tax expense		67,081	(10,666)	56,415	(3,444)	-	(3,444)
Income tax expense attributable to profit from ordinary activities	(g)	(58)	-	(58)	-	-	-
Profit for the period		67,023	(10,666)	56,357	(3,444)	-	(3,444)
Profit attributable to minority interest		-	-	-	-	-	-
Profit attributable to members of the parent entity		67,023	(10,666)	56,357	(3,444)	-	(3,444)

Note (i) The decrease in profit under A-IFRS for the reporting period ended 31 December 2004 has been caused by timing differences in relation to certain provisions made as at 30 June 2002. The restatement of these provisions are solely an effect of transition to A-IFRS.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

(iii) Effect of A-IFRS on the balance sheet as at 31 December 2004

	Note	Consolidated			Company		
		Super-seded policies*	Effect of transition to A-IFRS	A-IFRS	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets							
Cash & cash equivalents		103,213	-	103,213	7,606	-	7,606
Trade & other receivables		46,264	-	46,264	4,928	-	4,928
Inventories		62,020	-	62,020	-	-	-
Other		4,423	-	4,423	-	-	-
Total current assets		215,920	-	215,920	12,534	-	12,534
Non-current assets							
Trade & other receivables		848	-	848	151,980	-	151,980
Inventories		41,412	-	41,412	-	-	-
Property, plant and equipment (b),(c),(d)		392,166	(52,287)	339,879	-	-	-
Exploration, Evaluation and Development (b)	(b)	24,220	(24,220)	-	-	-	-
Mine assets (a),(b)	(a),(b)	-	89,054	89,054	-	-	-
Deferred tax assets (*) (g)	(g)	7,673	3,796	11,469	-	38	38
Other		858	-	858	296,329	-	296,329
Total non-current assets		467,177	16,343	483,520	448,309	38	448,347
Total assets		683,097	16,343	699,440	460,843	38	460,881
Current liabilities							
Trade & other payables		44,379	-	44,379	1,863	-	1,863
Borrowings		6,922	-	6,922	27	-	27
Provisions		2,490	-	2,490	116	-	116
Total current liabilities		53,791	-	53,791	2,006	-	2,006
Non-current liabilities							
Trade & other payables		31,097	-	31,097	1,635	-	1,635
Borrowings		21,269	-	21,269	6	-	6
Provisions (a)	(a)	11,802	11,737	23,539	-	-	-
Deferred tax liabilities (*) (g)	(g)	7,358	63,875	71,233	15	-	15
Total non-current liabilities		71,526	75,612	147,138	1,656	-	1,656
Total liabilities		125,317	75,612	200,929	3,662	-	3,662
Net assets		557,780	(59,269)	498,511	457,181	38	457,219
Equity							
Contributed equity		771,938	-	771,938	771,938	-	771,938
Reserves (e)	(e)	-	307	307	-	307	307
Accumulated losses (h)	(h)	(213,127)	(59,576)	(272,703)	(314,757)	(269)	(315,026)
Parent entity interest		558,811	(59,269)	499,542	457,181	38	457,219
Minority interest		(1,031)	-	(1,031)	-	-	-
Total equity		557,780	(59,269)	498,511	457,181	38	457,219

(*) For the purposes of the reconciliation, deferred tax assets and deferred tax liabilities have not been offset against each other.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

ACN 060 370 783

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

(iv) Effect of A-IFRS on the cash flow statement for the financial year ended 31 December 2004

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

(v) Notes to the reconciliations

The adjustments disclosed as at 1 July represent the opening A-IFRS opening balance sheet adjustments. The adjustments at 31 December 2004 reflect the new A-IFRS policies for the period to 31 December 2004.

(a) Provision for Rehabilitation

Under AASB 137 Provisions, Contingent Liabilities and Contingent Assets, from 1 July 2004 the consolidated entity is required to recognise the full cost of restoration and rehabilitation obligations discounted from the date the obligation is to be paid. The carrying amount of the provision increases in each reporting period due to the passage of time and that increase is recognised as a borrowing cost. The consolidated entity has elected to apply the exemption in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to:

- (i) Measure the liability as at the date of transition in accordance with AASB 137;
- (ii) Estimated the amount that would have been included in the cost of the related asset when the liability first arose by discounting the liability to that date using best estimates of the historical risk-adjusted discount rate that would have applied for the liability over the intervening period; and
- (ii) Calculated the accumulated depreciation on the amount, as at the date of transition, over the current estimated useful life of the asset, under the A-IFRS depreciation policy.

The effect of this is:

(i) At 1 July 2004

For the consolidated entity there has been a decrease in accumulated losses of \$163,000, an increase in property, plant and equipment of \$12,125,000 and an increase in the provision for rehabilitation of \$11,962,000. There is no effect on the Company.

(ii) At 31 December 2004

For the consolidated entity there has been an increase in the amortisation expense for PP&E of \$171,000 with a decrease in the provision for rehabilitation expense of \$1,080,000 and an equivalent decrease in the provision for rehabilitation liability, with an increase in finance cost and rehabilitation liability of \$855,000. There is no effect on the Company.

(b) Development costs

Development costs do not fall under the scope of AASB 6 Exploration for and Evaluation of Mineral Resources, from 1 July 2004 the consolidated entity has classified development costs as tangible Mine Assets at cost. Mine Properties previously included under Property Plant and Equipment have been reclassified under Mine Assets.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

ACN 060 370 783

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

The effect of this is:

(i) At 1 July 2004

For the consolidated entity there has been an increase in Mine assets of \$94,424,000 and a decrease in property plant and equipment of \$70,001,000 with a decrease in exploration, evaluation and development assets of \$24,423,000. There is no effect on accumulated losses. There is no effect on the Company.

(ii) At 31 December 2004

For the consolidated entity there has been a decrease in Mine assets of \$5,370,000 and an increase in property plant and equipment of \$5,167,000 with an increase in exploration, evaluation and development assets of \$203,000. There is no effect on accumulated losses. There is no effect on the Company.

(c) Impairment of assets

Under AASB 136 Impairment of Assets no impairment of assets exists at 1 July 2004 or 31 December 2004 as the recoverable value of assets exceeds their written down value. The consolidated entity has reversed all provisions for impairment accounted for under superseded policies as under previous AGAAP the interpretation was that impairment provisions could not be reversed. Under previous GAAP, depreciation of plant and equipment was adjusted for impairment on a gross basis, under AASB 136 impairment is to be apportioned to individual assets with depreciation calculated on the written down value.

The effect of this is:

(i) At 1 July 2004

For the consolidated entity there has been an increase in Plant and Equipment and a decrease in accumulated losses of \$15,678,000 and an increase in accumulated depreciation for Plant and Equipment and an increase in accumulated losses of \$4,467,000. There is no effect on the Company.

(ii) At 31 December 2004

There is no effect on the consolidated entity and Company.

(d) Obsolescence of plant and equipment

Under previous AGAAP the obsolescence was disclosed as part of the provision for impairment of property plant and equipment. AASB 116 Property Plant and Equipment requires changes to the carrying value of property plant and equipment to be separately disclosed.

The effect of this is:

(j) At 1 July 2004

There is no effect on the consolidated entity and Company.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

ACN 060 370 783

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

(ii) At 31 December 2004

For the consolidated entity there has been a decrease in Plant and Equipment of \$5,760,000 with an increase in write down of plant and equipment expense of \$12,711,000, and an increase in provision for impairment expense of \$1,102,000 (under 'Provisions and write downs'). There is no effect on the Company.

(e) Share-based payments

Under AASB 2 Share-based Payment from 1 July 2004 the consolidated entity is required to recognise an expense for those options that were issued to employees under the long-term incentive plan after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) At 1 July 2004

For the consolidated entity and Company there have been an increase in accumulated losses of \$205,000 and a corresponding increase in reserves.

(ii) At 31 December 2004

For the consolidated entity and Company there have been an increase in employee benefit expenses (under 'Other expenses') of \$102,000 and a corresponding increase in reserves.

(f) Borrowing costs

Under AASB 123 Borrowing costs the consolidated entity has elected to reverse the provision for borrowing cost against cost of plant and equipment as all borrowing costs capitalised were written off in prior years. Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised into the cost of that qualifying asset under the alternative approach.

The effect of this is:

(i) At 1 July 2004

For the consolidated entity there has been a decrease in accumulated depreciation of \$36,000, a decrease in provision for borrowing cost of \$195,000 and a decrease in property, plant and equipment of \$231,000. There was no effect on accumulated losses. There is no effect on the Company.

(ii) At 31 December 2004

There is no effect on the consolidated entity and Company.

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

ACN 060 370 783

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

(g) Deferred tax

Under previous AGAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable. Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases. The adoption of A-IFRS has resulted in a change in accounting policy. The application of AASB 112 Income Taxes and the effects of the above adjustments resulted in the recognition of deferred tax balances as follows:

(i) At 1 July 2004 and 31 December 2004

The effects on the deferred tax asset of the adoption of A-IFRS are as follows (tax rate of 30%):

	Note	Consolidated		Company	
		01-Jul-04	31-Dec-04	01-Jul-04	31-Dec-04
		\$'000	\$'000	\$'000	\$'000
Adjustments arising from adoption of AASB 112	(g)	(365)	3,796	38	38
Increase / (Decrease) in deferred tax asset		(365)	3,796	38	38

The effects on the deferred tax liability of the adoption of A-IFRS are as follows (tax rate of 30%):

Adjustment in tax base of property, plant and equipment (*)		-	(3,442)	-	-
Adjustments arising from adoption of AASB 112	(g)	63,214	67,317	-	-
Increase in deferred tax liability		63,214	63,875	-	-

(*) Since the A-IFRS transitional adjustments disclosed in June 2005 half yearly financial report, the deferred tax liability balance of \$74,751,000 has decreased by \$3,442,000 to account for a revised tax base of property, plant and equipment.

(h) Accumulated Losses

The effects on accumulated losses of the changes set out above are as follows:

	Notes	Consolidated		Company	
		01-Jul-04	31-Dec-04	01-Jul-04	31-Dec-04
		\$'000	\$'000	\$'000	\$'000
Adjustment to tax balances	(g)	(63,579)	(60,079)	38	38
Rehabilitation	(a)	163	(11,737)	-	-
Impairment	(c)	11,211	-	-	-
Obsolescence of plant and equipment	(d)	-	12,547	-	-
Share-based payments	(e)	(205)	(307)	(205)	(307)
Total adjustment		(52,410)	(59,576)	(167)	(269)
Attributable to:					
Equity holders of the parent		(52,410)	(59,576)	(167)	(269)
Minority interest		-	-	-	-
		(52,410)	(59,576)	(167)	(269)

MINARA RESOURCES LIMITED AND CONTROLLED ENTITIES

ACN 060 370 783

DIRECTORS DECLARATION FOR THE YEAR ENDED 31 DECEMBER 2005

In the opinion of the Directors of Minara Resources Limited:

(a) the financial statements and notes, set out on pages 27 to 81, are in accordance with the Corporations Act 2001, including:

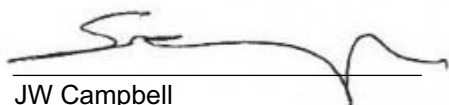
(i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 31 December 2005 and of their performance, as represented by the results of their operations and their cash flows, for the period ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the Directors:

Dated at Perth this 23rd day of February 2006



JW Campbell
Chairman



PB Johnston
Chief Executive Officer and Managing
Director

Independent audit report to the members of Minara Resources Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Minara Resources Limited (the company) and the consolidated entity, for the financial year ended 31 December 2005 as set out on pages 27 to 82. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial 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.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

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

Deloitte.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Minara Resources Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2005 and of their performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

AT Richards

AT Richards

Partner

Chartered Accountants

Perth WA 23 February 2006