

HINDMARSH RESOURCES LIMITED

ABN 29 106 444 857

ANNUAL REPORT 2004

HINDMARSH RESOURCES LIMITED

ABN 29 106 444 857

CORPORATE DIRECTORY

Directors

Francis Creagh Henry O'Connor
Robert James Sidney Greenslade
Simon Thomas O'Loughlin

Auditors

PKF
44 Greenhill Road
Wayville SA 5034

Company Secretary

Peter Eric Cox

Solicitors

O'Loughlins
99 Frome street
Adelaide SA 5000

Registered Office and Head Office

C/- Gryphon Partners Pty Ltd
60 Hindmarsh Square
Adelaide SA 5000

Bankers

National Australia Bank Limited
22 King William Street
Adelaide SA 5000

Postal Address

C/- Gryphon Partners Pty Ltd
60 Hindmarsh Square
Adelaide SA 5000

Share Registry

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

Home Stock Exchange

Stock Exchange of Newcastle Limited
Ground Floor
384 Hunter Street
Newcastle NSW 2300
NSX Code: HDL

CHAIRMAN'S ADDRESS

Thank you for your support to our share offering earlier this year. This support has resulted in your Company raising approximately \$1.2 million for pursuit of investment opportunities.

At the time of the offering, we indicated our aim would be to utilise this cash for the pursuit of investment opportunities with a particular focus on the resource sector.

In the months since the funds were raised, we have reviewed a wide range of investment opportunities. In terms of detailed reviews, we have been and continue pursuing resource and energy opportunities in China and Australia and a property management opportunity in Australia.

To date, we have not identified an investment opportunity on terms that we believe warrants the investment of your funds. We plan to continue the search for suitable investment opportunities and will only move to invest once we are satisfied with the quality and potential returns of such investment.



FCH O'Connor
Chairman

DIRECTORS' REPORT

for the period since incorporation to 30 June 2004

The directors present their report on the results of Hindmarsh Resources Limited for the period since incorporation on 24 September 2003 to 30 June 2004 and the state of affairs of the Company at that date.

DIRECTORS

The names of the directors of the Company in office during the whole of the period since incorporation and up to the date of this report are as follows:

Francis Creagh Henry O'Connor

Robert James Sydney Greenslade

Simon Thomas O'Loughlin

Creagh O'Connor (43) – Chairman, appointed 24 September 2003

Creagh is a founding Director of a boutique investment bank, Gryphon Partners, specialising in resource and energy transactions. Prior to establishing Gryphon Partners, Creagh was employed by the Normandy Mining Group in a variety of roles including Managing Director of Australian Magnesium Corporation Limited and Group General Manager of Business Development for Normandy Mining having joined in 1993. Prior to this, he spent 13 years specialising in corporate finance, advisory roles and providing general financial advice in Australia and Europe. This included working with companies such as Bain & Company, Morgan Grenfell & Co. and Price Waterhouse. Creagh is a Non-Executive Director of Australian Magnesium Corporation Limited.

Robert Greenslade (39) – Non-Executive Director, appointed 24 September 2003

Rob is a founding Director of a boutique investment bank, Gryphon Partners, specialising in resource and energy transactions. Prior to 2002, Rob was Group Executive Corporate for Normandy Mining Limited heading up the company's corporate division. Following the takeover of Normandy by Newmont Mining Corporation Inc., he was

appointed Vice President of Newmont Capital responsible for the Group's Australian and Asian Pacific corporate and business development activities.

Simon O'Loughlin (47) – Non-Executive Director, appointed 24 September 2003

Simon is a solicitor and partner with O'Loughlins Lawyers. His specialisations include corporate and mining law, taxation and revenue law and capital raisings. He is a director of Living Cell Technologies Ltd and Petratherm Ltd. Simon has substantial experience in corporate law and practice with a particular focus on small to medium size resources and other companies.

Peter Cox (55) – Company Secretary

Peter is a Fellow of the Institute of Chartered Accountants in Australia. He has spent more than 30 years in public accounting and now operates his own consulting business. He has held a number of director and secretarial positions with listed and unlisted entities.

Particulars of directors' interests in the shares of Hindmarsh Resources Limited as at the date of this report are as follows:

	<u>Fully paid shares held</u>	<u>Options held</u>
FCH O'Connor	583,333	216,667
RJS Greenslade	583,333	216,666
ST O'Loughlin	316,667	108,333

DIRECTORS' MEETINGS

The number of directors' meetings held (including meetings of committees of directors) and numbers of meetings attended by each of the directors of the Company during the financial year are:

	<u>Number of meetings of full board held</u>	<u>Number of meetings of full board attended</u>
FCH O'Connor	5	5
RJS Greenslade	5	5
ST O'Loughlin	5	5

Note: During the year there were also matters confirmed by circular resolution completed by all of the directors.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was receipt of interest from invested funds whilst seeking investment opportunities.

OPERATING RESULTS, REVIEW OF OPERATIONS AND STATE OF AFFAIRS

The Company made a loss of \$10,889 for the period from incorporation to 30 June 2004. The only source of income was interest received of \$22,876.

On 3 November 2003 the Company issued a Prospectus and successfully raised \$1,240,000 in public subscriptions before costs of the issue. Subsequently, the Company's shares were listed on the board of Stock Exchange of Newcastle Limited.

The Company is actively seeking investment opportunities and recorded \$7,719 of expenditure in so doing. At year end the Company's assets predominately comprised cash and term deposits.

DIVIDENDS

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend since the end of the previous financial year.

SUBSEQUENT EVENTS

There were no events subsequent to year end and to the date of this report that would have a material effect on these financial statements.

OPTIONS

Particulars regarding options as at the date of this report:

<u>Category</u>	<u>Exercisable at any time until</u>	<u>Exercise price</u>	<u>Exercised during the period</u>	<u>Outstanding</u>
Shareholder	30 October 2008	\$0.20	Nil	333,334
Underwriter shortfall	30 June 2006	\$0.23	Nil	6,550,000
Underwriter	28 February 2009	\$0.22	Nil	1,000,000
Shareholder	23 March 2009	\$0.25	Nil	2,066,595

None of the above options entitles the holders to participate, by virtue of the options, in any share issue of any other corporation.

DIRECTORS AND EXECUTIVES EMOLUMENTS

The Board's policy for remuneration of executives and directors is included in the Notes to Accounts Statement in the Financial Statements in this Annual Report. For the period from incorporation to the date of this report none of the directors has received any remuneration.

ENVIRONMENTAL REGULATION

The Company is not subject to environmental regulation. The directors are satisfied that no breaches of environmental regulations have occurred. No notices of any breaches have been received from any authority.

INDEMNIFICATION AND INSURANCE OF OFFICERS

During the previous financial year the Company entered into agreements to indemnify all directors of the Company named in paragraph 1 of this report against all liabilities (subject to certain limited exclusions) to persons (other than the Company or a related body corporate) which arise out of the performance of their normal duties as a director or executive officer unless the liability relates to conduct involving a lack of good faith. The Company has agreed to indemnify the directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments. The Company has not taken out a Directors' and Officers' insurance policy.

Dated at Adelaide, South Australia this 13th day of September 2004 and signed in accordance with a resolution of the directors.



FCH O'Connor,
Chairman

STATEMENT OF FINANCIAL PERFORMANCE

for the period from date of incorporation to 30 June 2004

	Notes	2004 \$
REVENUE FROM ORDINARY ACTIVITIES	2	22,876
Investment analysis expenses		(7,719)
Corporate office expenses		<u>(26,046)</u>
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(10,889)
Income tax expense	3	<u>-</u>
PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(10,889)
Non owner related changes in equity	5	<u>(71,441)</u>
TOTAL CHANGES IN EQUITY OTHER THAN OWNER-RELATED TRANSACTIONS		<u>(82,330)</u>
Basic earnings (loss) per share (cents)	8	(0.46)
Diluted earnings (loss) per share (cents)	8	(0.46)

STATEMENT OF FINANCIAL POSITION

as at 30 June 2004

		2004 \$
	Notes	
CURRENT ASSETS		
Cash assets	4	1,211,928
Other		<u>2,504</u>
TOTAL CURRENT ASSETS		<u>1,214,432</u>
TOTAL ASSETS		<u>1,214,432</u>
CURRENT LIABILITIES		
Payables		<u>6,752</u>
TOTAL CURRENT LIABILITIES		<u>6,752</u>
TOTAL LIABILITIES		<u>6,752</u>
NET ASSETS		<u>1,207,680</u>
EQUITY		
Contributed equity	5	1,218,569
Accumulated (Losses)	6	<u>(10,889)</u>
TOTAL EQUITY		<u>1,207,680</u>

STATEMENT OF CASH FLOWS
for the period from date of incorporation to 30 June 2004

		\$
	Notes	
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to contractors, suppliers		(29,517)
Interest received	2	<u>22,876</u>
Net cash inflow (outflow) from operating activities		<u>(6,641)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issues	5	1,290,010
Share issue expenses	5	<u>(71,441)</u>
Net cash inflow (outflow) from financing activities		<u>1,218,569</u>
Net increase (decrease) in cash held		1,211,928
CASH AT THE BEGINNING OF THE FINANCIAL PERIOD		<u>0</u>
CASH AT THE END OF THE FINANCIAL PERIOD	4	<u>1,211,928</u>

RECONCILIATION OF OPERATING LOSS AFTER TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating profit (loss) after income tax	(10,889)
Changes in Assets and Liabilities	
Decrease (Increase) in other current assets	(2,504)
(Decrease) Increase in creditors and accruals	<u>6,752</u>
Net cash used in operating activities	<u>(6,641)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period from date of incorporation to 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company are stated to assist in a general understanding of these financial statements. These policies have been consistently applied by the Company except as otherwise indicated.

The financial statements are a general purpose financial report prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

(a) Basis of accounting

The financial statements have been prepared on the basis of historical costs and except where stated do not take into account current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets.

(b) Recoverable amount

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value.

(c) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation.

(d) Revenue recognition

Revenue includes interest income on short term investments and is recognised on an accruals basis.

(e) Cash flows

For the purpose of the statements of cash flows, cash includes cash on hand and at bank and deposits held at call with banks.

(f) Trade and other creditors

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

(g) Employee entitlements

The Company has no employees at balance date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period from date of incorporation to 30 June 2004

(h) Earnings per share

Basic earnings per share is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members, adjusted for;

- (i) costs of servicing equity (other than dividends) and preference share dividends;
- (ii) the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- (iii) other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(i) Date of incorporation

The Company was incorporated on 24 September 2003. Accordingly the Statement of Financial Performance covers the period from that date until 30 June 2004, and there is no comparative period.

\$

2. REVENUE

Ordinary activities

Interest	22,876
Total revenue	<u>22,876</u>

3. INCOME TAX

The amount of income tax attributable to the financial period differs from the prima facie benefit on the operating loss. The difference is reconciled as follows:

Prima facie income tax (benefit) at 30% (2002: 30%) on operating loss	(3,267)
Tax effect of permanent differences:	
– non deductible items	<u>2,316</u>
Prima facie tax (benefit) adjusted for permanent differences	(951)
Net future income tax benefits not brought to account	<u>951</u>
Income tax attributable to operating profit (loss)	<u>-</u>

The Company has potential future income tax benefits of \$951 calculated at 30% attributable to tax losses. They have not been brought to account because the directors do not believe it is appropriate to record the realisation of the future tax benefit as virtually certain. The benefits of these tax losses will only be obtained if:

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period from date of incorporation to 30 June 2004

\$

4. CASH

Cash at hand and at bank	106,248
Deposits at call with banks	1,105,680
	<u>1,211,928</u>

5. CONTRIBUTED EQUITY

(a) Share capital	Number	\$
Fully paid ordinary shares	<u>7,183,333</u>	<u>1,218,569</u>

(b) Movements in ordinary fully paid share capital	Number	\$
<u>Fully paid ordinary shares</u>		
Issued 24 September 2003	2	2
Issued 21 October 2003	649,998	8
Issued 31 October 2003	333,333	50,000
Issued 24 March 2004	6,200,000	1,240,000
Less, share issue expenses		<u>(71,441)</u>
Balance at 30 June 2003	<u>7,183,333</u>	<u>1,218,569</u>

(c) Options	Number
30 October 2008 exercisable at 20 cents	333,334
28 February 2009 exercisable at 22 cents	1,000,000
30 June 2006 exercisable at 23 cents	6,550,000
23 March 2009 exercisable at 25 cents	<u>2,066,595</u>
Total options outstanding at 30 June 2004	<u>9,949,929</u>

6. ACCUMULATED LOSSES

\$

Profit (loss) for the year	<u>(10,889)</u>
(Accumulated losses) at the end of the year	<u>(10,889)</u>

7. REMUNERATION OF AUDITORS

Audit or review of financial reports	3,000
Other services	<u>2,200</u>
Total remuneration	<u>5,200</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period from date of incorporation to 30 June 2004

8. EARNINGS PER SHARE

Basic earnings (loss) per share (cents)	(0.46)
Diluted earnings (loss) per share (cents)	(0.46)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	2,356,803
Weighted potential ordinary shares on issue	1,173,412

The calculation of Diluted earnings per share does not include weighted potential ordinary shares on issue as to do so would have the effect of reducing the amount of the loss per share.

9. SEGMENT INFORMATION

The Company is based solely in Australia and is currently seeking investment opportunities.

10. DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified directors

FCH O'Connor	Chairman (non executive)
RJS Greenslade	Director (non-executive)
ST O'Loughlin	Director (non-executive)

(ii) Specified executives

PE Cox	Company Secretary
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(b) Remuneration of Specified Directors and Specified Executives

Remuneration Policy

The Board of directors of Hindmarsh Resources Ltd is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

There was no remuneration paid or payable to any of the Specified Directors or Specified Executives during the reporting period.

(c) Other transactions with Specified Directors and Specified Executives - services

Specified Directors

O'Loughlins of which Mr ST O'Loughlin is a partner has provided legal services to the Company on normal commercial terms amounting to \$18,212.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period from date of incorporation to 30 June 2004

Specified Executives

PE Cox acts as a consultant to the Company and at 30 June 2004 an amount of \$3,000 has been accrued for accounting services on normal commercial terms.

(d) Option holdings of Specified Directors and Specified Executives (all vested)

	Issued in conjunction with shares acquired	Balance at 30 June 2004
<u>Specified Directors</u>		
FCH O'Connor	216,667	216,667
RJS Greenslade	216,666	216,666
ST O'Loughlin	108,333	108,333
<u>Specified executives</u>		
PE Cox	-	-
Total	541,666	541,666

None of the above options was granted as part of any remuneration arrangement.

(e) Shareholdings of Specified Directors and Specified Executives

	Subscribed	Balance at 30 June 2004
<u>Specified Directors</u>		
FCH O'Connor	583,333	583,333
RJS Greenslade	583,333	583,333
ST O'Loughlin	316,667	316,667
<u>Specified executives</u>		
PE Cox	125,000	125,000
Total	1,608,333	1,608,333

The equity transactions with specified directors and specified executives have been entered into under conditions no more favourable than those the entity would have adopted if dealing at arm's length.

11. FINANCIAL INSTRUMENTS

(a) Credit Risk - The credit risk on financial assets of the Company which have been recognised on the statement of financial position is the carrying value.

(b) Interest Rate Risk - The Company's exposure to the effective interest rates on each class of financial instrument is set out below:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period from date of incorporation to 30 June 2004

2004	Note	Floating interest rate	Non-interest bearing	TOTAL
<u>Financial Assets</u>				
Cash and deposits	4	1,211,928	-	1,211,928
Receivables		-	2,504	2,504
		1,211,928	2,504	1,214,432
Weighted average interest rate		4.7%		
<u>Financial Liabilities</u>				
Trade and other creditors		-	6,752	6,752
		-	6,752	6,752
Net Financial assets		1,211,928	(4,248)	1,207,680

- (c) Net fair values - The directors consider that the carrying value of financial instruments approximates their net fair value.

12. EVENTS SUBSEQUENT TO REPORTING DATE

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Company must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board.

The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Company's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The key potential implications of conversion to IFRS on the Company are as follows:

- All financial instruments including derivatives will be recognised in the statement of financial position and all derivatives will be carried at fair value.
- Impairment of assets will be determined on a discounted basis, with strict tests for determining whether cash generating operations have been impaired.
- Deferred tax assets and liabilities will generally be based on the differences between the accounting and tax basis of assets and liabilities under the "balance sheet" approach which may result in the recognition of more deferred tax assets and liabilities.
- Equity based compensation in the form of shares and options will be recognized as expenses of the periods during which the employee provides related services.
- Changes in accounting policies will be recognized by restating comparatives rather than making current year adjustments with note disclosures of prior period effects.

A detailed evaluation of the impact of IFRS on the Company's accounting policies and business information requirements has not been performed as at 30 June 2004, but is expected to occur by 30 June 2005.

DIRECTORS' DECLARATION

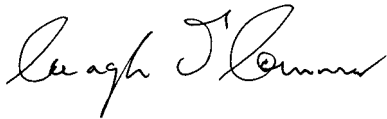
The directors declare that the financial statements and notes set out on pages 6 to 14:

- (a) comply with Australian Accounting Standards, the Corporations Regulations 2001, and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's financial position as at 30 June 2004 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001, and
- (b) there are reasonable grounds to believe that the Company will be able pay its debts as and when they become due and payable.

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

A handwritten signature in black ink, appearing to read 'FCH O'Connor', written in a cursive style.

FCH O'Connor , Director

Dated this 13th day of September 2004.
Adelaide, South Australia



Chartered Accountants
& Business Advisers

ABN 95 060 658 273

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44 Greenhill Road
Wayville
South Australia 5034
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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HINDMARSH RESOURCES LIMITED

Scope

The Financial Report and Directors' responsibility

The Financial Report, as set out on pages 6 to 15, comprises the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, Notes to and Forming Part of the Financial Statements, and the Directors' Declaration for Hindmarsh Resources Limited (the Company), for the period from incorporation on 24 September 2003 to 30 June 2004.

The Directors of the Company are responsible for the preparation and true and fair presentation of the Financial Report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error and for the accounting policies and accounting estimates inherent in the Financial Report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to 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 control, 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 assess whether, in all material respects, the Financial Report presents fairly, in accordance with the *Corporations Act 2001* including compliance with Accounting Standards and other mandatory Financial Reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the Financial Report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of 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.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

In our opinion, the Financial Report of Hindmarsh Resources Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - i) giving a true and fair view of the Company's financial position as at 30 June 2004 and of its performance for the period ended on that date; and
 - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

A handwritten signature in black ink, appearing to be 'PKF', on a light-colored background.

PKF
Chartered Accountants

A handwritten signature in blue ink, appearing to be 'Ian Jeffrey Painter', on a light-colored background.

Ian Jeffrey Painter
Partner

Signed at Adelaide this 13 day of September 2004