



**TERRAMIN AUSTRALIA LIMITED**  
*Focus on Zinc*

ABN: 67 062 576 238

# HALF YEAR REPORT

**30 JUNE 2006**

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

**INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**DIRECTORS' REPORT.**

Your directors submit the financial report of the economic entity for the half-year ended 30 June 2006

**Board of Directors**

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

Dr Kevin C Moriarty  
Mr David A Paterson  
Mr Michael H Kennedy  
Mr Steven A J Bonett

**Review of Operations**

**Overview**

Terramin ('the Company') focuses on investment in advanced mineral projects, with early cash flow potential and with a current preference for base metals, particularly zinc. To achieve this it seeks to identify and acquire projects with certain characteristics viz: identified resources or targets, proximity to infrastructure, potential for high-grade reserves, potential to grow resources or expand production to larger tonnages. It will undertake greenfields exploration if the tenements are located near infrastructure or existing operations.

The Company is actively advancing three main projects which are discussed in more detail later. The Angas Zinc Project is the most advanced with production expected in later 2007.

Qued Amizour	Exploration Permit 5221PE
Angas Zinc Project	Mineral Lease 6229 (was Mineral Claim 3567)
Menninnie Dam	Exploration Licence 2848

**Highlights for the Half Year**

The Company has progressed significantly in the 6 months to 30 June 2006 with the following points worthy of special note :

- Share placement to Macquarie Bank at 55 cents per share raising \$1.001 million - 20 January 2006.
- Offshore expansion into Algeria with the formation of Western Mediterranean Zinc Spa ('WMZ') and control of the Qued Amizour Project (65%) - 27 February 2006
- Further significant exploration success at Menninnie Dam – 26 April 2006
- Completion of Angas Zinc Project feasibility study – 17 May 2006
- Sempra exercised 4 million options at 40 cents each raising \$1.6 million for working capital – 30 June 2006.

**Highlights since 30 June 2006**

Activity has continued at a fast pace since the period end with the following worthy of note :

- Drill hole TH001 commenced at Tala Hamza, Qued Amizour Zinc Project on 3 July 2006
- Continued success from exploration drilling at Menninnie Dam.
- Appointment of Chief Financial Officer - 9 August 2006.
- Mining Lease 6229 approved by South Australian Government for the Angas Zinc Project - 17 August 2006.
- Angas Zinc Project debt financing mandate, to act as sole lead arranger, awarded to National Australia Bank - 24 August 2006.

A detailed update will be provided in the September 2006 Quarterly Activities Report to be lodged with the Australian Stock Exchange Ltd ('ASX') during the month of October 2006.

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238  
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**DIRECTORS' REPORT (cont'd)**

**Terramin Tenement Listing**

Title Name and Location	Licence Number	Area (sq kms)	Expiry Date	Terramin Interest	Comments
Bremer South Australia	EL 2839	457	9/9/06	100%	Replacement ELA pending (ELA 0343) Expenditure amalgamation to be requested
Currency Creek South Australia	EL 3128	174	16/9/06	100%	Renewal application lodged Expenditure amalgamation to be requested
Langhorne Creek South Australia	EL 3310	275	23/2/07	100%	Expenditure amalgamation to be requested
Angas Zinc Project South Australia	ML 6229	87.97 ha	24/10/06	100%	Granted on 17 <sup>th</sup> August 2006 over MC 3567
Oued Amizour Algeria	5221 PE	12,276 ha	20/05/09	65%	Held in the name of Western Mediterranean Zinc SpA

**Menninnie Metals Tenement Listing (80% Terramin, 20% Zinifex)**

Title Name	Licence Number	Area (sq kms)	Expiry Date	Menninnie Interest	Comments
Menninnie Dam South Australia	EL 2848	101	23/9/06	100%	Replacement ELA pending (ELA0363) Zinifex earning up to 70%
Ingomar South Australia	EL 2969	1,236	12/6/06	100%	Renewal pending inc. 40% reduction
National Trig South Australia	EL 3039	659	24/10/06	100%	
Phar Lap South Australia	EL 2987	72	23/7/06	100%	Renewal pending inc. 50% reduction

**Oued Amizour Zinc Project - Exploration Permit 5221 PE (TZN 65%)**

Terramin's interest is held via a shareholding in a newly incorporated Algerian company Western Mediterranean Zinc SpA (WMZ). This company was formed following the signing of a joint venture agreement with ENOF (Enterprise nationale des produits miniers non ferreux et des substances utiles – an Algerian Government company) to complete a feasibility study to mine the zinc-lead deposit of Oued Amizour, near Bejaia, Northern Algeria. The joint venture agreement also covers regional exploration.

Exploration Permit 5221 PE was granted to WMZ on 21<sup>st</sup> May 2006 for a term of 3 years. The permit covers 122.76 square kilometres and may be renewed at the end of the initial term.

Terramin will spend US\$6.6m up to decision to mine expected in early 2008 and has pre-emptive rights over the remaining 35% of the project which is held by two Algerian government companies.

The Oued Amizour Zinc Project is based on a 50 million tonne VHMS type Zn+Pb deposit with a high grade core. It is located in northern Algeria, only 12km from an international airport and shipping terminal in the western Mediterranean, and is close to Europe and zinc smelters in Spain and Sardinia. Infrastructure includes power, water, roads and labour force on site. Published reports by ORGM (an Algerian Government company involved in exploration, mining and related activities) refer to 30Mt at 6.9% Zn+Pb (6% cut-off and 98m thick) with a high grade core of 11Mt at 13.9% Zn+Pb. This has recently been named Tala Hamza and Terramin's drilling of TH001 commenced on 3 July 2006.

TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238  
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DIRECTORS' REPORT (cont'd)

**Angas Zinc Project – Mining Lease 6229 (TZN 100%)**

Angas has been the major focus of activities during the reporting period and these have included:

- Drilling to improve resource definition and expand the limits of known mineralisation.
- Geotechnical and water bore drilling
- Preparation of Mining Lease Application and refinement of the Mine and Rehabilitation Plan (MARP)
- Mineral processing test work including optimisation of flotation reagents, confirmation of zinc and lead concentrate grade and characteristics and test work on a proposed gold/copper concentrate.
- Refinement of project capital costs and appointment of preferred engineering contractor
- Identification and securing of key plant items eg ball mill.
- Financial modelling and discussions with financial institutions to identify the best debt finance package for the project.
- Support and presentations to the Strathalbyn Community Consultation Committee (CCC).

**Fleurieu Project – Exploration Licence's 2839, 3128, and 3310 (TZN 100%)**

Near mine exploration has been the focus for EL2839 for the period. Exploration outside ML 6229 included surface EM and a follow up drill program. No field work was carried out on EL's 3128 and 3310. Terramin has begun a regional review of the geology, geochemistry and geophysics of the tenements. The various regional geophysical surveys, including EM, magnetics and radiometrics are being integrated.

**Menninnie Dam EL 2848 (Menninnie Metals Limited 100%) - Zinifex earning up to 70%**

Zinifex continues to fund this exciting project. At the date of this report approximately \$3.4 million has been spent on diamond drilling, aero-magnetics and related exploration activities. Resource definition has been the major focus during the reporting period. Substantial progress has been made, particularly within the Menninnie Central zone, in understanding the structural controls, mechanisms and orientation of lead and zinc mineralisation. Exploration of the 3.5km strike length aeromagnetic feature associated with mineralisation to the north of Menninnie Central is a focus for the current period.

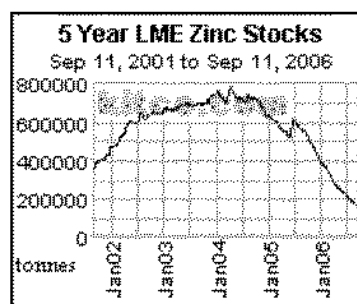
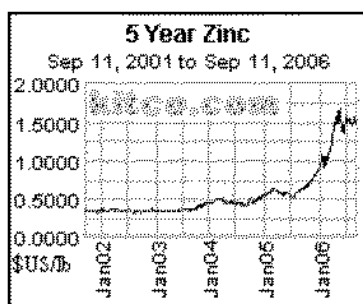
**Business Development**

Terramin will continue to seek out and investigate advanced zinc and other base metal projects both within and outside of Australia.

**Zinc Markets**

The Zinc price performed strongly during the period reaching a high of US181 cents / per lb on 11 May 2006 a rise of 220% over the 12 months. During that time zinc metal stocks held by the London Metals Exchange steadily declined and this trend continues to this day. Zinc prices over the last month have held around the US150 cents / lb level.

The above statistics are viewed very positively and we anticipate strong zinc prices well into 2007 and possibly beyond. This augers well for projected Angas Zinc Project cash flow.



The March and June 2006 quarterly Activities Reports lodged with ASX contain a summary of the Company's operations over the six month period under review.

TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238  
AND CONTROLLED ENTITIES

DIRECTORS' REPORT (cont'd)

**Financial**

The Company made a loss for the half year ended 30 June 2006 of \$1,286,918 (half year to 30 June 2005 loss \$213,074). A total of \$5,208,801 spent during the period on exploration and evaluation of the Company's tenements has been carried forward as an asset in the Company's balance sheet. \$33,540 spent in prior periods on exploration and evaluation of projects was written off at period end.

During the period the Company raised \$1.01 million from the issue of 1,820,000 new shares at 55 cents each. In addition another 5,810,000 shares were issued pursuant to the exercise of unlisted options raising \$1,965,200. (refer note 5.)

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

**Other Significant Events since Reporting Date**

Other than those referred to in the Director's Report and note 12, there are no significant events subsequent to the half year ended 30 June 2006.

**Auditor's Declaration**

The auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 5 for the half-year ended 30 June 2006.

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



Director.....

Kevin C Moriarty

Dated this 12<sup>th</sup> day of September 2006



Director.....

David A Paterson

Dated this 12<sup>th</sup> day of September 2006



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

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF TERRAMIN AUSTRALIA LIMITED**

I declare that, to the best of my knowledge and belief, during the half-year ended 30 June 2006 there have been:

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

KPMG

Peter Robertson

12<sup>th</sup> September 2006

151 Pirie Street, Adelaide SA 5000

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

**CONSOLIDATED INCOME STATEMENT  
FOR THE HALF-YEAR ENDED  
30 JUNE 2006**

	Note	Economic Entity	
		30.6.2006	30.6.2005
		\$	\$
Revenue		456,530	67,496
Depreciation expense		(26,593)	(7,407)
Employee benefits expense		(140,863)	(156,665)
Tenement expenditure written off		(33,540)	(5,117)
Administration expenses	2	(739,052)	(407,463)
Share options issued	6	(546,616)	-
Finance costs		(264,733)	-
<b>Profit/(Loss) before income tax</b>		<b>(1,294,867)</b>	<b>(509,156)</b>
Income tax expense		-	-
<b>Profit/(Loss) for the period</b>		<b>(1,294,867)</b>	<b>(509,156)</b>
<b>Profit/(Loss) attributable to minority equity interest</b>		<b>(7,949)</b>	<b>(296,082)</b>
<b>Profit/(Loss) attributable to members of the parent Entity</b>		<b>(1,286,918)</b>	<b>(213,074)</b>
<b>Overall Operations:</b>			
Basic earnings per share (cents per share)		(1.8)	(0.37)
Diluted earnings per share (cents per share)		(1.8)	(0.37)

The accompanying notes form part of these financial statements

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

**CONSOLIDATED BALANCE SHEET  
AS AT  
30 JUNE 2006**

	Note	Economic Entity	
		30.6.2006 \$	31.12.2005 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		5,598,630	7,576,437
Trade and other receivables		638,301	330,685
Other assets		69,696	3,663
<b>TOTAL CURRENT ASSETS</b>		<b>6,306,627</b>	<b>7,910,785</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		980,409	528,780
Exploration & evaluation	3	9,457,709	6,122,446
Other non-current assets		25,000	4,632
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,463,118</b>	<b>6,655,858</b>
<b>TOTAL ASSETS</b>		<b>16,769,745</b>	<b>14,566,643</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		652,398	594,031
Provisions		27,119	11,669
<b>TOTAL CURRENT LIABILITIES</b>		<b>679,517</b>	<b>605,700</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	4	6,903,307	6,904,356
Other liabilities		90,470	176,736
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>6,993,777</b>	<b>7,081,092</b>
<b>TOTAL LIABILITIES</b>		<b>7,673,294</b>	<b>7,686,792</b>
<b>NET ASSETS</b>		<b>9,096,451</b>	<b>6,879,851</b>
<b>EQUITY</b>			
Issued capital	5	12,000,670	9,035,045
Share option reserve		651,993	106,302
Foreign currency reserve		(6,162)	-
Retained earnings/(loss)		(3,754,198)	(2,467,280)
<b>Parent entity interest</b>		<b>8,892,303</b>	<b>6,674,067</b>
<b>Minority equity interest</b>		<b>204,148</b>	<b>205,784</b>
<b>TOTAL EQUITY</b>		<b>9,096,451</b>	<b>6,879,851</b>

The accompanying notes form part of these financial statements

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED  
30 JUNE 2006**

	Share Capital Ordinary	Share Option Reserve	Foreign Currency Reserve	Retained Profits/(Loss)	Minority Interests	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 January 2006</b>	9,035,045	106,302	-	(2,467,280)	205,784	6,879,851
Shares issued during the period	2,967,125					2,967,125
Share issue costs	(1,500)					(1,500)
Share option reserve		545,691				545,691
Foreign currency reserve			(6,162)			(6,162)
Share issue attributable to minority					6,313	6,313
	<u>12,000,670</u>	<u>651,993</u>	<u>(6,162)</u>	<u>(2,467,280)</u>	<u>212,097</u>	<u>10,391,318</u>
Loss for the period				(1,294,867)		(1,294,867)
Profit attributable to minority shareholders				7,949	(7,949)	-
Attributable loss for the period				(1,286,918)	(7,949)	(1,294,867)
<b>Balance at 30 June 2006</b>	<u>12,000,670</u>	<u>651,993</u>	<u>(6,162)</u>	<u>(3,754,198)</u>	<u>204,148</u>	<u>9,096,451</u>

The accompanying notes form part of these financial statements.

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

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

	Share Capital Ordinary	Share Option Reserve	Foreign Currency Reserve	Retained Profits/(Loss)	Minority Interests	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 January 2005</b>	5,992,109			(1,366,099)		4,626,010
Shares issued during the period	1,550,000					1,550,000
Share issue costs	(1,500)					(1,500)
Share option reserve		90,552				90,552
Share issue attributable to minority					500,000	500,000
	7,540,609	90,552		(1,366,099)	500,000	6,765,062
Loss for the period				(509,156)		(509,156)
Profit attributable to minority Shareholders				(139)	139	
Net profit on disposal (premium paid for acquisition) of minority interest in subsidiary				296,221	(296,221)	
Attributable loss for the period				(213,074)	(296,082)	(509,156)
<b>Balance at 30 June 2005</b>	<b>7,540,609</b>	<b>90,552</b>	<b>-</b>	<b>(1,579,173)</b>	<b>203,918</b>	<b>6,255,906</b>

The accompanying notes form part of these financial statements.

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238  
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**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE HALF-YEAR ENDED  
30 JUNE 2006**

	Economic Entity	
	30.6.2006	30.6.2005
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	178,067	47,472
Interest paid	(242,600)	-
Receipts from customers	276,000	-
Payments to suppliers and employees	(1,090,722)	(233,416)
Net cash provided by (used in) operating activities	(879,255)	(185,944)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of non-current assets	(497,105)	(492,944)
Joint venture contributions received	1,677,613	-
Exploration expenditure payments	(5,245,260)	(1,309,792)
Net cash provided by (used in) investing activities	(4,064,752)	(1,802,736)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	2,966,200	2,050,000
Proceeds from borrowings	-	6,500,000
Net cash provided by (used in) financing activities	2,966,200	8,550,000
<b>Net increase in cash held</b>	<b>(1,977,807)</b>	<b>6,561,320</b>
Cash at 1 January 2006	7,576,437	2,400,104
<b>Cash at 30 June 2006</b>	<b>5,598,630</b>	<b>8,961,424</b>

The accompanying notes form part of these financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED  
30 JUNE 2006**

**Note 1: Basis of Preparation**

Terramin Australia Limited (the "Company") is a company domiciled in Australia. The condensed consolidated half-year financial report of the Company as at and for the six months ended 30 June 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interests in associates and jointly controlled entities.

The half-year financial report is a condensed general purpose financial report prepared in accordance with Australian Accounting Standards and the requirements of the Corporations Act 2001. The financial report also complies with IFRSs and interpretations adopted by the International Accounting Standards Board. The half-year financial report does not include full disclosures of the type normally included in an annual financial report, and therefore it is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2005, and any public announcements made by Terramin Australia Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

This report has been prepared in Australian dollars on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets. These accounting policies have been consistently applied by the Company and are consistent with those of the previous reporting period, except for the change in the option pricing model noted below.

**Share-based payments**

Share-based compensation benefits are provided to employees, consultants and directors. The fair value at grant date is independently determined using a Trinomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

**Note 2: Administration Expenses – Significant Items**

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

Accounting and secretarial fees	\$104,452
Computer expense	\$49,883
Consulting fees	\$213,911
Legal fees	\$35,726
Rent and office services	\$44,041
WorkCover	\$36,456

**Note 3: Exploration & Evaluation**

	Half year to 30 June 2006	Half year to 30 June 2005
	\$	\$
Balance at the beginning of the period	6,122,446	2,495,358
Expenditure for the half year	5,208,801	1,016,133
Less: Amounts recovered from JV partner	(1,839,998)	(96,599)
Less, amounts written off	(33,540)	(5,117)
<b>Balance at the end of the period</b>	<b>9,457,709</b>	<b>3,409,775</b>

The exploration & evaluation assets are intangible.

#### Note 4: Convertible Notes

Sempra Metals has subscribed for US\$5,050,000 (A\$6.5 million) five year unlisted convertible redeemable notes in Terramin, with the proceeds being used to finance scheduled exploration, evaluation and capital expenditures on the Angas Project. The foreign currency amounts have been translated to Australian dollar equivalents using the spot currency rate at 30 June 2006, which has given rise to an unrealised foreign currency exchange loss of \$1,049 for the half year. Interest is payable quarterly based on the London Interbank Offered Rate (Libor) plus a margin of 300 basis points, the total rate for the current interest period being 8.3406%. The interest and capital is payable in either cash or shares at the discretion of the Company.

#### Note 5: Issued Capital

Table of issued capital for the half year ended 30 June 2006

Type of Share Issue	Number of Ordinary Shares on issue	Issue Price \$	Share Capital \$	Employee, Consultant or Other
<b>Opening Balance</b>	<b>68,949,691</b>		<b>9,035,045</b>	
Share placement	1,820,000	0.55	1,001,000	Other
Exercise of options	10,000	0.52	5,200	Consultant
Exercise of options	4,000,000	0.40	1,600,000	Other
Exercise of options	1,800,000	0.20	360,000	Other
<b>Closing Balance</b>	<b>76,579,691</b>		<b>12,001,245</b>	
Share issue costs			(1,500)	
Transfer of option reserve to issued capital following option exercise			925	
<b>Issued Capital</b>			<b>12,000,670</b>	

#### Note 6: Options Issued

Table of options issued for the period ending 30 June 2006

Expiry Date	Exercise Price \$	Classification	Vesting or hurdle terms Yes/No	Number of options	Options expense this period \$	Total option value \$
<b>Opening Balance</b>				<b>8,030,000</b>		
16 March 2009	0.25	Consultants	No	200,000	92,000	92,000
7 June 2009	1.57	Directors	Yes	1,500,000	198,257	198,257
7 June 2009	1.88	Directors	Yes	1,500,000	121,496	121,496
16 February 2011	0.60	Employees	Yes	1,480,000	55,410	270,228
3 May 2011	1.44	Officer	No	100,000	47,613	47,613
3 May 2011	1.44	Consultants	No	50,000	23,807	23,807
7 June 2011	1.26	Employees	Yes	450,000	5,302	52,768
7 June 2011	1.26	Consultants	Yes	295,000	2,731	106,364
Total					546,616	912,533
Options exercised or lapsed during the period				(5,810,000)		
<b>Closing Balance at 30 June 2006</b>				<b>7,795,000</b>		

Option value was calculated at the date of issue using an independently generated trinomial model that accounted for option terms including vesting and hurdle events.

#### Note 7: Deferred Income Tax Asset

The Company has potential future income tax benefits available of \$795,999 consisting of an unrecognised tax loss asset of \$3,497,880 net of unrecognised temporary difference tax liabilities of \$2,701,881 (all calculated at 30%). The net deferred tax asset has not been brought to account because the directors do not believe it is appropriate to record the realisation of the asset as 'probable'. The net deferred tax asset will only be recognised when the directors believe future assessable income sufficient to enable the tax asset to be realised is likely.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED  
30 JUNE 2006**

**Note 8: Segment Reporting**

The consolidated entity comprises the following main geographic segments:

- Australia
- Northern Africa

**Primary reporting format – geographic segments**

	Australia		Northern Africa		Eliminations		Economic Entity	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$
Segment Revenue	456,530	67,496	0	-	-	-	456,530	67,496
Segment Result	(1,294,652)	(509,156)	(215)	-	-	-	(1,294,867)	(509,156)
Loss before income tax	(1,294,652)	(509,156)	(215)	-	-	-	(1,294,867)	(509,156)
Income tax expense	-	-	-	-	-	-	-	-
Loss after income tax	(1,294,652)	(509,156)	(215)	-	-	-	(1,294,867)	(509,156)

	Australia		Northern Africa		Eliminations		Economic Entity	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$
Segment Assets	16,570,760	13,223,589	198,985	-	-	-	16,769,745	13,223,589
Total Assets							16,769,745	13,223,589
Segment Liabilities	7,485,969	6,967,683	187,325	-	-	-	7,673,294	6,967,683
Total Liabilities							7,673,294	6,631,660
Other Depreciation of Segment Assets	26,593	7,407	-	-	-	-	26,593	7,407

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED  
30 JUNE 2006**

**Note 9: Commitments**

Other than the following there are no material contractual commitments or liabilities at the reporting date.

- i. In early July an undertaking was given to United Drilling Services by subsidiary Menninnie Metals Limited concerning the drilling of 20 exploration drill holes at the Menninnie Dam Project. Related expenditure is estimated at \$2.13 million. Zinifex are currently funding this work. Pursuant to the Menninnie joint venture terms Zinifex have met their minimum expenditure of \$2 million and therefore could withdraw. In the unlikely event of this happening the Company may need to fund and/or renegotiate this commitment.
- ii. Minimum expenditure on exploration tenements on which the Company has title are as follows:

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Within one year	925,000	1,185,000	370,000	450,000
Total	925,000	1,185,000	370,000	450,000

The Company has an obligation to meet various exploration expenditure commitments as imposed and / or negotiated with PIRSA and other relevant government authorities. Relinquishment of part or all of the titles will reduce the commitments. 2006 figures are best estimates as several titles are still in the process of renewal and replacement.

- iii. Terramin has a joint venture agreement that covers the Oued Amizour Zinc Project and involved the formation of a new Algerian company Western Mediterranean Zinc Spa ('WMZ'). Pursuant to the agreement the Company has undertaken to spend up to US\$6.6 million on exploration and evaluation and has committed to spend not less than US\$0.5 million.
- iv. On 8<sup>th</sup> September 2006 the Company committed to a 10,000 metres diamond drilling programme to be undertaken on the Oued Amizour Zinc Project by Spektra Jeotek a Turkish drill contractor. The contract is estimated in excess of US\$1.5 million. A break fee applies being US\$40 per metre.
- v. Consultant Contracts

Commitments for the payment of services under consultant contracts in existence at the date of this report but not recognised as liabilities, payable:

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Within one year	206,500	90,000	206,500	90,000
One to five years	115,000	112,500	115,000	112,500
Total	321,500	202,500	321,500	202,500

vi. Employee Contracts

Commitments for the payment of salaries and other remuneration under long term employment contracts in existence at the date of this report but not recognised as liabilities, payable:

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Within one year	459,201	-	459,201	-
One to five years	287,001	-	287,001	-
Total	746,202		746,202	

- vii. The Company has committed to expenditure of approximately \$320,000 for the dismantling and transportation of a SAG mill and spares from the Northern Territory to the Angas Zinc Project.
- viii. With the grant of Mining Lease 6229 the Company's commitment to pay a \$20,000 per annum option fee to the holders of EML 5325 recommenced. \$20,000 will be payable on 9 October 2006

**Note 10: Contingencies**

i. Finders Fee

A second tranche of a finders fee is payable to a non-related party and linked to the commencement of commercial production from the first producing mine established on the Oued Amizour tenement covered by the ENOF Algerian joint venture. The amount payable will be US\$62,500 which will be converted into the Australian Dollar equivalent at the time of the contingent payment in the future, as well as 100,000 unlisted options exercisable at 25 cents each within 3 years of date of issue.

ii. Garwood Royalty Payment

The Company is required to pay a royalty (1% of 'net' profits from mining conducted in the area below the extractive minerals lease) to the holders of EML 5325 should mining commence on the Angas Zinc Project.

iii. Bond

Terramin was granted Mining Lease 6229 on 17 August 2006 and a bond estimated at \$1.3 million will be required by PIRSA before mining activities commence. This amount will likely be provided from bank project financing facilities.

iv. Litigation

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

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

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

The Company will continue to seek a favourable outcome in relation to this litigation. A mediation meeting is scheduled for 30 October 2006.

v. Option to purchase plant for the Angas Zinc Project.

The Company has paid a \$20,000 option fee relating to the purchase of a crushing plant. The option expires on 11 November 2006 and the balance of the purchase price is \$ 384,291.

- vi. On the 24 August 2006 the Company awarded the National Australia bank a mandate to act as sole lead arranger for the financing of the Angas Zinc Project. If the Company terminates this arrangement prior to financial close it could be liable for termination fees of up to \$0.5 million.

**Note 11: Controlled Entities**

**Detailed Table**

Name	Country of incorporation	Percentage Owned	Percentage Owned
		2006	2005
<b>Parent Entity:</b>			
Terramin Australia Limited	Australia		
<b>Subsidiary of parent entity:</b>			
Menninnie Metals Limited	Australia	80%	80%
Western Mediterranean Zinc SpA	Algeria	65%	0%
Terramin Spain S.L.	Spain	100%	0%

Western Mediterranean Zinc SpA was incorporated on 28 March 2006 and Terramin Spain S.L. was acquired as a shelf company on 27 February 2006.

**Note 12: Events subsequent to Reporting Date**

Various events are disclosed in the Director's Report and in addition the following are considered material.

- i. On 16 August 2006 Terramin signed a contract to purchase Lot 7 Callington Road Strathalbyn 5255. A deposit of \$5,000 was paid and settlement of the remaining consideration of \$475,000 is scheduled for 16 October 2006.
- ii. Subsequent to the half year end, 350,000 options (exercisable at \$1.42 before 7 August 2011 and subject to vesting terms) were issued to an employee.
- iii. On 31 August 2006 Terramin signed a contract to purchase 15.67 hectares of pastoral land comprising part of Block 51 Hundred of Strathalbyn. A deposit of \$20,000 was paid and settlement of the remaining consideration of \$354,500 is scheduled for the earlier of 1 March 2009 or 30 days from date that new clear title is established.
- iv. On 8 September 2006 \$80,000 was received upon the exercise of 400,000 options at 20 cents each.

TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238  
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 16:
  - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
  - (b) give a true and fair view of the economic entity's financial position as at 30 June 2006 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Director.....

Kevin C Moriarty

Dated this 12<sup>th</sup> day of September 2006



Director.....

David A Paterson

Dated this 12<sup>th</sup> day of September 2006



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

**INDEPENDENT REVIEW REPORT  
TO THE MEMBERS OF TERRAMIN AUSTRALIA LIMITED**

**Scope**

We have reviewed the financial report of Terramin Australia Limited for the half-year ended 30 June 2006 as set out on pages 6 to 17. The company's directors are responsible for the financial report. The financial report includes the consolidated financial statements of the economic entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the economic entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Independence**

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

**Statement**

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

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the economic entity's financial position as at 30 June 2006 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*; and
- (b) other mandatory professional reporting requirements in Australia.

*KPMG*

KPMG

Peter Robertson

12<sup>th</sup> September 2006

151 Pirie Street, Adelaide SA 5000