

24 July 2007

## Tala Hamza! Its BIG!

### One stop shop for zinc and lead

- Mining of the Angas decline began last week. While modest in size, the Angas operation will provide funds toward development of the huge Tala Hamza deposit in Algeria. With process plant construction to begin in October '07 first concentrates from Angas are expected in August '08. TZN provides unrivalled zinc and lead leverage albeit at an early stage and with some sovereign risk. With continued high grade drill intercepts from Tala Hamza we remain positive on the deposit and as a zinc and lead growth story TZN should be one of the greatest beneficiaries of the base metals boom. We reiterate our BUY recommendation ahead of our \$3.83/sh price target.
- Oued Amizour (TZN 65%):** The Oued Amizour project in Algeria contains the world class Tala Hamza zinc sulphide deposit. With an inferred resource of 55Mt of 5.0% zinc and 1.2% lead, it represents one of the largest undeveloped zinc deposits in the world. Located just 15km from a deep water port and on Europe's doorstep, Tala Hamza will be one of the largest zinc deposits to be brought on line in the next 5 years. Recent drilling has been higher grade than that used for the initial resource due to improved recoveries and more drilling is required (30,000m planned). Two more rigs are being imported, bringing the total to four and an international engineering group will be selected by the end of the month to manage the scoping study( due year end) and the pre-feasibility study (due August '08).
- Angas Zinc (TZN 100%):** The Angas zinc deposit is only 70km from Adelaide in South Australia. Angas is fully funded by a debt facility from Investec and Sempra. It will produce over 30,000tpa zinc and 12,000tpa lead with gold, silver and copper credits from August '08. At current prices the lead concentrate and contained credits would almost cover site cash costs with the zinc production for free!
- Menninnie Dam JV (TZN 30%, ZFX 70%):** Operated by TZN, the Menninnie Dam JV in South Australia will have a zinc/lead resource out by Christmas. The project is located only 130km from the Port Pirie lead smelter and port.
- Our DCF derived price target of \$3.83/sh is based on a large underground operation at Oued Amizour and LME forward prices returning to long term average prices of US\$0.75/lb for zinc and US\$0.30/lb for lead, by March 2011.

#### Company

<b>Stock code:</b>	<b>TZN</b>
<b>Share price:</b>	<b>\$3.25</b>
<b>Recommendation:</b>	<b>BUY</b>

\$3.45    \$4.21



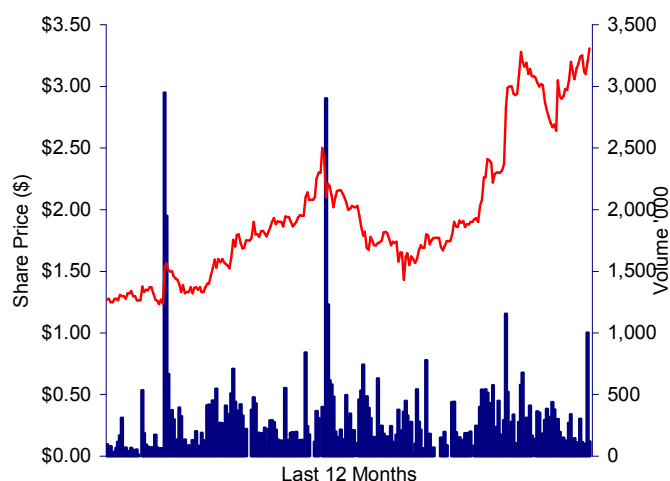
**S&P/ASX 300 = 6414**

#### Analyst

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#### Company Statistics & Performance

<b>Shares on Issue</b>	97.6m	<b>Daily Vol.</b>	262,236
<b>Market Cap.</b>	\$317.2m	<b>Debt</b>	\$13.7m
<b>52 Week Range</b>	\$1.24 - \$3.31	<b>Cash</b>	\$13.1m



#### Investment Summary

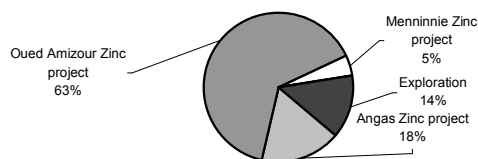
Year End December 31	2007F	2008F	2009F	2010F
<b>Reported Earnings</b>				
Net Profit (\$m)	(16.7)	(9.5)	30.4	43.0
EPS (cents)	(17.1)	(9.8)	31.2	44.0
EPS growth (%)	na	57.2	(318.5)	141.3
PER (x)	(19.0)	(33.2)	10.4	7.4
<b>EBITDA</b>				
EBITDA (\$m)	(15.0)	6.1	72.0	103.6
EV/EBITDA (x)	(22.3)	64.4	5.6	3.8
<b>Cashflow Multiples</b>				
Gross Cashflow (\$m)	(16.7)	(1.9)	50.4	72.7
GCFPS (cents)	(17.1)	(2.0)	51.6	74.5
PGCF (x)	(19.0)	(162.9)	6.3	4.4
Free Cashflow (\$m)	(45.7)	(59.7)	(8.5)	9.9
FCFPS (cents)	(46.8)	(61.2)	(8.7)	10.1
PFCF (x)	na	na	na	32.1
<b>Dividend</b>				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

## Terramin Australia Ltd

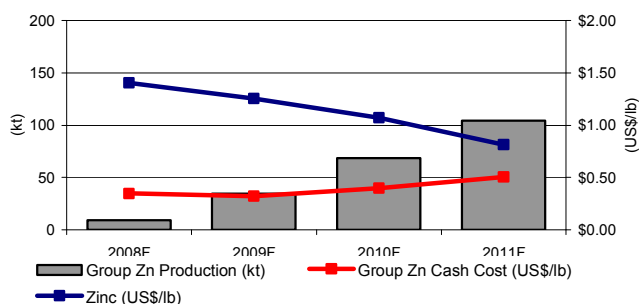
\$3.25

Valuation	A\$m	A\$/sh	
Angas Zinc project	77	0.73	
Oued Amizour Zinc project	283	2.67	
Menninnie Zinc project	20	0.19	
Corporate	(46)	(0.43)	
Unpaid Capital	13	0.12	
Debt	(14)	(0.13)	
Exploration	60	0.57	
Equity Investments	0	0.00	
Cash	13	0.12	
<b>NPV</b>	<b>407</b>	<b>3.83</b>	
@ 8% Discount Rate			
<b>Sensitivities</b>	<b>-10%</b>	<b>0</b>	<b>+10%</b>
<b>A\$ : US\$</b>	<b>\$4.33</b>	<b>\$3.83</b>	<b>\$3.43</b>
<b>Zinc Price</b>	<b>\$2.76</b>	<b>\$3.83</b>	<b>\$4.91</b>
<b>Lead Price</b>	<b>\$3.66</b>	<b>\$3.83</b>	<b>\$4.01</b>

## Valuation Summary of Operating Assets



## Zinc Production Summary



## Reserves &amp; Resources

Reserves	(Mt)	(%, g/t)	(kt,koz)
<b>Angas Zinc</b>	2.00		
Zinc		8.3	166
Lead		3.1	62
Copper		0.3	6
Silver		33.0	660
Gold		0.5	10
<b>Resources</b>	3.04		
Zinc		8.3	252
Lead		3.1	94
Copper		0.3	9
Silver		34.0	1,034
Gold		0.5	15
<b>Oued Amizour</b>	55		
Zinc		5.0	2,750
Lead		1.2	660

## Directors

Name	Position
Kevin Moriarty	CEO/Executive Chairman
David Paterson	Non Executive Director
Steve Bonett	Non Executive Director
Jim Hazel	Non Executive Director
Michael Kennedy	Non Executive Director

## Substantial Shareholders

Shareholder	Shares (m)	%
David Paterson	9.17	9.88
Kevin Moriarty	9.03	9.73
Sempra Metals	5.82	6.27
Geologic Resource Fund	5.03	5.42
<b>Top 20</b>	<b>48.2</b>	<b>51.9</b>

Commodity Assumptions	2007F	2008F	2009F	2010F
A\$:US\$	\$0.83	\$0.81	\$0.78	\$0.73
Gold (US\$/oz)	\$664	\$711	\$752	\$794
Silver (US\$/oz)	\$13.33	\$14.43	\$15.09	\$12.82
Copper (US\$/lb)	\$3.17	\$3.05	\$2.70	\$2.27
Zinc (US\$/lb)	\$1.58	\$1.40	\$1.25	\$1.07
Lead (US\$/lb)	\$1.12	\$1.27	\$1.04	\$0.70

Production Summary	2007F	2008F	2009F	2010F
<b>Angas Zinc project</b>				
Zn in Concentrate (kt)		9.1	34.6	30.6
Pb in Concentrate (kt)		3.2	11.6	10.9
Cu in Concentrate (kt)		0.3	0.9	0.9
Silver in Cu Concentrate (moz)		0.1	0.3	0.3
Gold in Cu Concentrate (koz)		1.4	5.2	4.9
<b>Zn Cash Costs (US\$/lb)</b>		\$0.35	\$0.32	\$0.40
** (Net of Pb, Cu, Ag & Au credits)**				

## Oued Amizour Zinc project

Zn in Concentrate (kt)	37.9
Pb in Concentrate (kt)	21.6
Zn Cash Costs (US\$/lb)	\$0.50
** (Net of Pb credits)**	

<b>Group Zn Production (kt)</b>	<b>9.1</b>	<b>34.6</b>	<b>68.5</b>
<b>Group Zn Cash Cost (US\$/lb)</b>	<b>\$0.35</b>	<b>\$0.32</b>	<b>\$0.40</b>
** (Net of all credits)**			

Profit & Loss (A\$m)	2007F	2008F	2009F	2010F
<b>Sales Revenue</b>	<b>0.9</b>	<b>35.2</b>	<b>122.1</b>	<b>184.2</b>
Other Income	0.5	0.7	1.5	2.1
Operating Costs	0.0	10.5	30.9	61.5
Exploration Exp.	10.7	13.2	14.5	14.8
Corporate/Admin	5.7	6.1	6.2	6.4
<b>EBITDA</b>	<b>(15.0)</b>	<b>6.1</b>	<b>72.0</b>	<b>103.6</b>
Depn & Amort	0.0	7.5	20.0	29.8
<b>EBIT</b>	<b>(15.0)</b>	<b>(1.4)</b>	<b>52.0</b>	<b>73.9</b>
Interest	1.7	7.1	8.5	12.5
<b>Operating Profit</b>	<b>(16.7)</b>	<b>(8.5)</b>	<b>43.4</b>	<b>61.4</b>
Tax expense	0.0	1.1	13.0	18.4
Minorities	0.0	0.0	0.0	0.0
Abnormals and FX adjustments	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>(16.7)</b>	<b>(9.5)</b>	<b>30.4</b>	<b>43.0</b>
<b>Normalised NPAT</b>	<b>(16.7)</b>	<b>(9.4)</b>	<b>30.4</b>	<b>43.0</b>

Cash Flow (A\$m)	2007F	2008F	2009F	2010F
Adjusted Net Profit	(16.7)	(9.4)	30.4	43.0
+ Interest/Tax/Expl Exp	12.4	21.4	36.1	45.7
- Interest/Tax/Expl Inc	12.3	21.4	36.1	45.7
+ Depn/Amort	0.0	7.5	20.0	29.8
+/- Other	0.0	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>(16.7)</b>	<b>(1.9)</b>	<b>50.4</b>	<b>72.7</b>
- Capex (+asset sales)	25.3	57.8	58.9	62.8
- Other investing cashflow	3.8	0.0	0.0	0.0
- Working Capital Increase	0.0	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>(45.7)</b>	<b>(59.7)</b>	<b>(8.5)</b>	<b>9.9</b>
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	10.1	0.0	0.0	0.0
+ Debt drawdown (repaid)	40.3	67.8	21.9	39.7
<b>Net Change in Cash</b>	<b>8.1</b>	<b>13.4</b>	<b>49.6</b>	<b>(2.6)</b>
Cash at End Period	14.1	35.6	85.2	82.6
Net Cash/(LT Debt)	(32.8)	(92.6)	(101.1)	(91.2)

Balance Sheet (A\$m)	2007F	2008F	2009F	2010F
Cash/Bullion	14.1	22.2	35.6	85.2
Total Assets	91.9	159.5	235.2	334.7
Total Debt	46.7	114.2	136.0	175.5
Total Liabilities	59.9	137.0	182.4	238.8
Shareholders Funds	31.9	22.5	52.9	95.9

Ratios	2007F	2008F	2009F	2010F
Net Debt/Equity (%)	102.8	411.8	191.1	95.1
Interest Cover (x)	na	na	6.1	5.9
Return on Equity (%)			57.5	44.8

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