



TERRAMIN AUSTRALIA LTD (TZN)

RESEARCH

TOLHURST

| | | |
|------------|--------------|-------------------------|
| Last Price | Price Target | Sector |
| \$2.80 | \$3.87 | Materials – Base Metals |

Risk Rating

HIGH

Short term <12m

BUY

Long Term > 12m

BUY

Company update Initiation of Coverage

Recommendation Change NA

Target Price Change NA

Forecast Change NA

Pure Exposure to Emerging Base Metals

Thesis

Terramin Australia (TZN) could establish a significant and globally relevant base metal business, capable of producing +150ktpa of zinc (Zn) and +40ktpa of lead (Pb) within a six year timeframe.

The company has three advanced projects; the modest Angas (100%) underground mine being constructed near Adelaide, the very large Tala Hamza (65%) deposit under evaluation in NE Algeria, and the Menninnie Dam (24%) exploration project located on South Australia's Eyre Peninsula.

First concentrate from Angas is due to be shipped in August 2008 and the project should deliver **168kt of Zn** and **62kt of Pb** over its initial 7 year life.

Subject to positive feasibility studies, Tala Hamza, which contains **2.75mt of Zn** and **660kt of Pb**, could be in production from 2011. Once established the deposit should produce 120ktpa of Zn and 25ktpa of Pb for at least 11 years and possibly more given the exploration upside. The project is located some 10km from a major Mediterranean port and proximal to important European smelters.

Menninnie Dam, a JV with Zinifex, contains Zn and Pb mineralisation over a 6km strike length, and may potentially contain over **1.0mt of Zn**. TZN expects to report a new resource over the central part of the deposit before the end of 2007.

The company has developed a clear growth platform by acquiring a suite of advanced projects and compiling a capable and experienced team to build a substantial base metals business.

Valuation and Recommendation

We have completed a discounted cash flow model for Angas and Tala Hamza and assigned a nominal valuation for Menninnie Dam.

Our base case value for TZN is A\$346m or A\$2.96 per share. Angas is valued at A\$87m and Tala Hamza has been designated a 70% risked value of A\$202m, while Menninnie Dam and exploration have been allocated a value of A\$70m.

TZN's net asset value increases to A\$433m or A\$3.70 per share if we de-risk Tala Hamza, while using a flat Zn price of US\$1.55/lb (highly unlikely) would take the total valuation to ~A\$9 per share. By applying a relative peer approach, a valuation of over A\$4.00 per share can also be justified.

Therefore, we have set a price target of **A\$3.87 per share** to reflect the range of valuations we have been able to demonstrate.

Tala Hamza is the key, and is perfectly timed to deliver production into a projected supply constrained market from 2011 on. Over the short term, metal price volatility will most certainly affect the share price however we remain positive on the longer term outlook for both Zn and Pb.

While there are numerous development hurdles and risks to tackle, we believe TZN is very well placed to overcome these, and emerge as a prominent global base metal participant. We therefore recommend Terramin (TZN) as a short and long term speculative **BUY**.

Market Stats

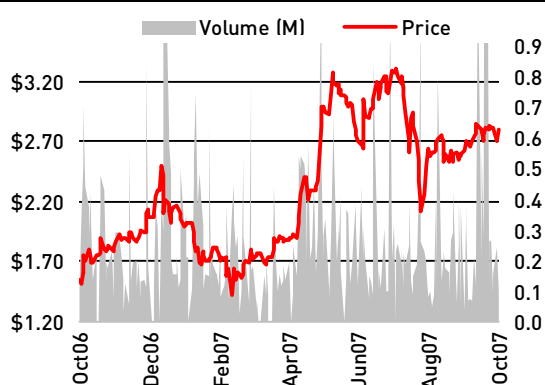
| | | |
|---------------------------|-----|-------------------|
| Market Capitalisation | \$m | \$279 (undiluted) |
| 12 Month Price Range | \$ | \$1.36 - \$3.48 |
| Monthly Turnover | \$m | \$22.3m |
| Monthly Volume | m | 8.1m |
| Monthly T'over (of total) | % | 8.1% |

| Fundamentals | | 2007E | 2008E | 2009E | 2010E |
|--------------|-----|-------|-------|-------|-------|
| Net Profit | \$m | -5.7 | -5.5 | 16.2 | 6.2 |
| EPS | ¢ | -0.06 | -0.06 | 0.13 | 0.05 |
| PE | x | na | na | 21.2 | 55.7 |
| DPS | ¢ | 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 |
| ROE | % | -11 | -11 | 13 | 5 |

Forecast Returns % Return- 12 months

| | |
|-----------------------------|-----|
| Forecast Price Appreciation | 38% |
| Expected Dividend Yield | 0% |
| Total Forecast Return | 38% |

+Share Price Chart 1 Year



TERRAMIN AUSTRALIA LTD (TZN)

RESEARCH



TOLHURST

| | | | | | |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Terramin Australia TZN \$2.80

| Profit & Loss 31 Dec | 07E | 08E | 09E | 10E | 11E |
|----------------------|-------------|-------------|-------------|-------------|--------------|
| Revenue | 0.0 | 26.6 | 83.3 | 68.1 | 282.8 |
| Operating Costs | 0.0 | 12.9 | 31.4 | 31.2 | 95.6 |
| EBITDA | 0.0 | 13.7 | 51.9 | 37.0 | 187.2 |
| Depn & Amort | 0.0 | 11.9 | 12.4 | 13.0 | 26.5 |
| EBIT | -3.0 | -1.3 | 36.5 | 20.9 | 157.7 |
| Interest | 2.7 | 4.4 | 7.8 | 7.0 | 5.2 |
| NPBT | -5.7 | -5.6 | 28.7 | 13.9 | 152.5 |
| Tax Expense | 0.0 | -0.1 | 12.5 | 7.8 | 46.7 |
| NPAT | -5.7 | -5.5 | 16.2 | 6.2 | 105.9 |

| Cashflow (A\$m) | 07E | 08E | 09E | 10E | 11E |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Operating Cashflow | -5.7 | 6.4 | 28.8 | 19.2 | 132.3 |
| -Capex | -30.0 | -44.0 | -45.8 | -89.7 | -5.0 |
| Free Cashflow | -35.7 | -37.6 | -17.0 | -70.5 | 127.3 |
| -Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| +Equity Raised | 34.1 | 0.0 | 65.0 | 0.0 | 0.0 |
| +Debt Drawdown | 25.0 | 20.0 | 10.0 | -0.4 | -20.0 |
| Net Change in Cash | 25.1 | -13.5 | 62.1 | -66.8 | 111.4 |
| Cash at End Period | 34.6 | 21.1 | 83.2 | 16.4 | 127.8 |

| Balance Sheet (A\$m) | 07E | 08E | 09E | 10E | 11E |
|----------------------------|-------------|--------------|--------------|--------------|--------------|
| Cash | 34.6 | 21.1 | 83.2 | 16.4 | 127.8 |
| Total Assets | 90.2 | 108.8 | 204.1 | 214.0 | 303.9 |
| Total Debt | 31.5 | 51.5 | 61.5 | 61.1 | 41.1 |
| Total Liabilities | 39.3 | 59.3 | 81.7 | 76.7 | 95.6 |
| Shareholders Equity | 50.8 | 49.1 | 122.2 | 137.1 | 208.2 |

| Contained Production | 07E | 08E | 09E | 10E | 11E |
|----------------------------|----------|--------------|---------------|---------------|----------------|
| Angas Zn t | - | 8,216 | 32,396 | 29,160 | 27,040 |
| Angas Pb t | - | 2,820 | 10,726 | 10,101 | 11,519 |
| Tala Hamza Zn t | - | - | - | - | 77,220 |
| Tala Hamza Pb t | - | - | - | - | 17,940 |
| Total Zn Production | - | 8,216 | 32,396 | 29,160 | 104,260 |
| Total Pb Production | - | 2,820 | 10,726 | 10,101 | 29,459 |

| Reserves and Resources | Mt | Zn% | Pb% | Cu% | Zn kt |
|------------------------|-------|------|------|------|-------|
| Angas Resource | 3.04 | 8.0% | 3.1% | 0.3% | 243 |
| Angas Reserves | 2.34 | 8.1% | 3.1% | 0.3% | 190 |
| Tala Hamza Resource | 55.00 | 5.0% | 1.2% | - | 2750 |

| Assumptions | 07E | 08E | 09E | 10E | 11E |
|------------------|------|------|------|------|------|
| US\$/A\$ | 0.84 | 0.83 | 0.76 | 0.75 | 0.72 |
| Cu Price US\$/lb | 3.20 | 3.10 | 2.75 | 2.40 | 2.00 |
| Zn Price US\$/lb | 1.55 | 1.40 | 1.00 | 0.95 | 1.05 |
| Pb Price US\$/lb | 1.25 | 1.10 | 0.90 | 0.70 | 0.60 |

| Financial Summary | 07E | 08E | 09E | 10E | 11E |
|--------------------|-------|-------|------|------|------|
| <i>(undiluted)</i> | | | | | |
| EPS (A\$) | -0.06 | -0.06 | 0.13 | 0.05 | 0.86 |
| PER (x) | na | na | 21.2 | 55.7 | 3.3 |
| DPS (cents) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Yield (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| CFPS (A\$) | -0.06 | 0.06 | 0.29 | 0.19 | 1.33 |
| ROA (%) | -3% | -1% | 18% | 10% | 52% |
| ROE (%) | -11% | -11% | 13% | 5% | 51% |
| Net Sales Margin | na | na | 19% | 9% | 37% |
| EBIT Margin | na | na | 44% | 31% | 56% |
| Net Debt to Equity | -6% | 62% | -18% | 33% | -42% |
| Debt to Assets | 35% | 47% | 30% | 29% | 14% |
| NTA | 0.5 | 0.5 | 1.0 | 1.1 | 1.7 |

Directors / Management

| | |
|-----------------|-------------------------|
| Kevin Moriarty | Executive Chairman, CEO |
| David Paterson | Director |
| Steve Bonett | Director |
| Michael Kennedy | Director |
| Jim Hazel | Director |

Substantial Shareholders

| Substantial Shareholders | Shares (m) | % |
|--------------------------|------------|------|
| Kevin Moriarty | 9.02 | 9.1% |
| David Paterson | 8.66 | 8.7% |
| GR Fund | 6.51 | 6.5% |
| Commonwealth Bank | 5.61 | 5.6% |

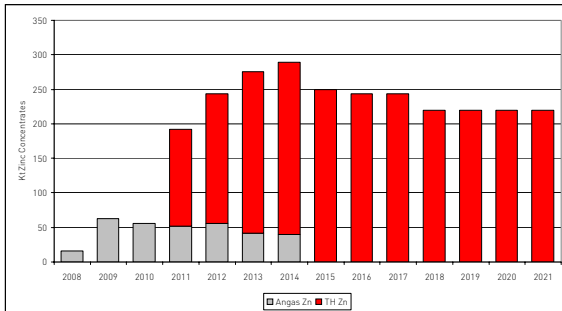
Valuation Summary

| Valuation Summary | A\$m | A\$/share |
|---------------------------|-------|-----------|
| Angas | 86.5 | 0.74 |
| Tala Hamza | 202.0 | 1.73 |
| Exploration (+ Menninnie) | 70.0 | 0.60 |
| Forwards | -15.4 | -0.13 |
| Cash | 34.6 | 0.30 |
| Debt | -31.5 | -0.27 |
| Corporate | -22.8 | -0.20 |
| Unpaid Capital | 22.5 | 0.19 |

| | | | |
|----------------------------|------------|------------|-------------|
| Total (diluted) NAV | 10% | 346 | 2.96 |
| Target Price | | | 3.87 |

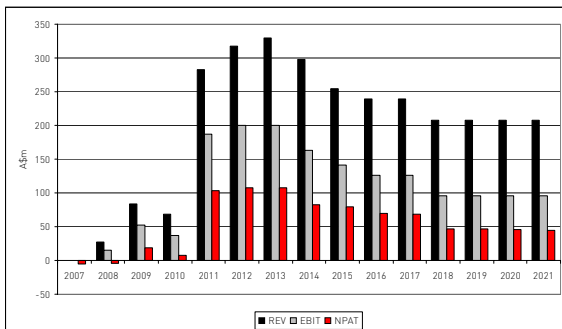
| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Figure 1: Zn Concentrate Production Profile



Source: Tolhurst Research, (excludes Menninnie Dam)

Figure 2: TZN Forecast Financials



Source: Tolhurst Research

Figure 3: Project Development Timeframes

| Angas | Oct 07 - Jun 08 | Oct 07 - Jun 08 | Jul-08 | Aug-08 | |
|----------------|-----------------|-----------------|--------------------------|-----------------|--------|
| First Stop Ore | Construction | Commissioning | First Shipment | | |
| Tala Hamza | Oct 07 - Dec 07 | Jan 08 - Aug 08 | Sep 08 - Jun 09 | Jul 09 - Oct 10 | Jan-11 |
| Scoping | Pre-Feasibility | Feasibility | Finance and Construction | Prod | |

Source: Tolhurst Research

There are project risks to also consider

Angas:

- Timing, Community, Metal Price / Volatility

Tala Hamza:

- Geotechnical
- Funding, capex and opex
- Country Risk
- Metal Price / Volatility

Which may negatively impact our price target!

OVERVIEW

Angas may be small but is very important because it.....

- Generates positive early cash flows in a strong price environment.
- Has clear infrastructure, workforce and cost advantages.
- Establishes community "license to operate" credentials for TZN.
- Demonstrates TZN can operate an efficient and profitable model mine.
- Allows refinement of exploration models, which could enhance exploration success.
- Shows the Algerian government that it is an experienced mine developer and operator.

Tala Hamza is the company maker and.....

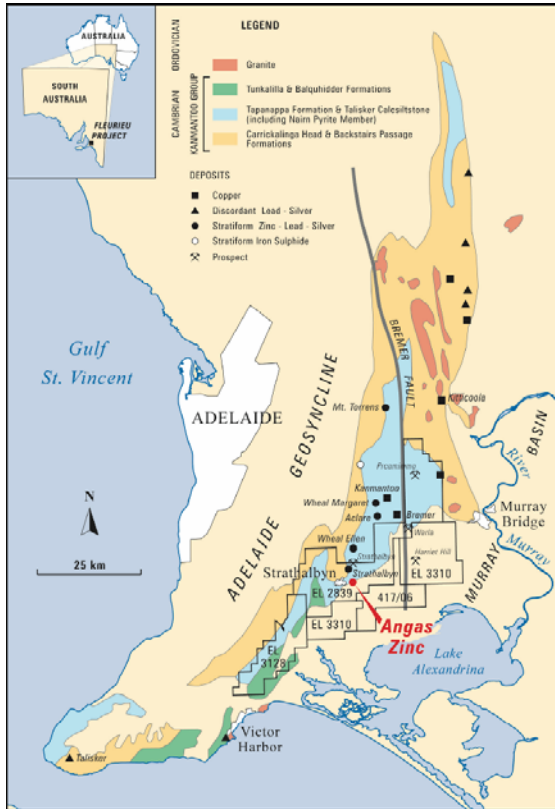
- Could generate gross revenues of A\$2.5bn over the first 11 years.
- Has proximity to a major port at Bejaia which significantly reduces infrastructure costs.
- Will produce a clean (low iron) highly sought after +55% Zn concentrate.
- There is substantial improvement of the overall deposit grade with every new drill hole. Positive grade reconciliations of +100% in early twinned holes are notable.
- The deposit is up to 200m thick and contains long high grade shoots well over 60m in length. The deposit should allow numerous mining options.
- Production is expected to come on line in 2011, timed with a forecast global supply shortage.
- Ranks in the top group (3rd quartile) of globally significant deposits and elevates TZN as a major global producer of Zn and Pb (Top 20).
- Apart from the Tala Hamza deposit, the Oued Amizour region has over 500kt Zn+Pb of non JORC exploration targets to refine.
- TZN has first option to acquire the total project.
- TZN will attract the increasing attention of the resource majors once early hurdles are overcome.

Menninnie can't be overlooked either as.....

- Zn and Pb mineralisation is traceable over 6km, while copper and gold potential also exists.
- Previous high end resource estimates (non JORC) reported over 1.0mt of contained Zn potential.
- JV partner Zinifex has spent A\$8m to date on exploration with more effort and expenditure to continue.
- An initial resource will be reported in Q4 2007.
- The area is close to the Port Pirie smelter.
- It could potentially be producing from 2012.

| | | | | | |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Figure 4: Location, Leasing and Geology



Source: Company Data

Figure 5: Surface Layout Angas



Source: Company Data

ANGAS ZINC PROJECT (100%)

The Angas project is located in South Australia, approximately 60km south east of Adelaide and 2km from the small town of Strathalbyn. Around 324kt of Zn and 129kt of Pb-Cu-precious metal concentrates will be produced from a small underground mine and processing facility. The project is currently under construction and due to commence production in Q3 2008.

Angas has reserves of 2.34mt @ 8.1% Zn and 3.1%Pb sufficient for an initial 7 year life.

Brief Background – Angas Secured pre Resource Boom

Aberfoyle Resources discovered Angas in 1991 and by 1993 had drilled the deposit to define a resource of ~1mt @ 14% Pb +Zn.

In 1997 Playford Resources NL (the precursor of Terramin) acquired an interest in Angas and formed a 60:40 JV with Aberfoyle. By 2004 Terramin purchased the minority interest in the project when Western Metals (who had earlier acquired Aberfoyle) went into receivership.

After the completion of a scoping study Terramin moved to list on the ASX in late 2003 and raised A\$5m.

After much community consultation, final approvals were received and construction began in earnest from April 2007.

Geology and Mineralisation – 3 shoots with coarse sulphides

The Angas deposit is subdivided into three main shoots known as the Rankine, Hangingwall and Garwood shoots. The deposit strikes north-south, dips 70° to the east and has a 45° plunge to the south. With a strike length of around 300m at the top of the orebody, the deposit extends some 375m below surface and has a variable thickness averaging 10m.

The deposit is geologically hosted within metamorphosed garnetiferous metasediments and folded sedimentary rocks of the Kanmantoo Trough (Tapanappa Formation).

The ore is comprised of coarse grained sphalerite-galena-pyrite-pyrrhotite with minor chalcopyrite. The sphalerite is dark brown in colour and contains ~9% iron. The ore is referred to Types 1 or 2, "Type 1" ore is a banded coarse sulphide dominated by sphalerite and pyrite and "Type 2" mineralisation is typified by more massive sulphides typically associated with pyrrhotite. Type 1 comprises some 20% of the deposit.

The deposit at Angas has broad similarities to the Broken Hill style of mineralisation.

Resources and Reserves – 7 year mine life @ 11.2% Zn + Pb

The Indicated resource was first calculated in 2005 and based on approximately 105 holes, of which 62 holes were used to construct a block model and assign attributable grades.

Additional infill drilling is being conducted to confirm the southern part of Rankine and the Garwood shoots, though no changes have been made to the resource estimates since the 2005 calculation.

Last Price
\$2.80

Price Target
\$3.87

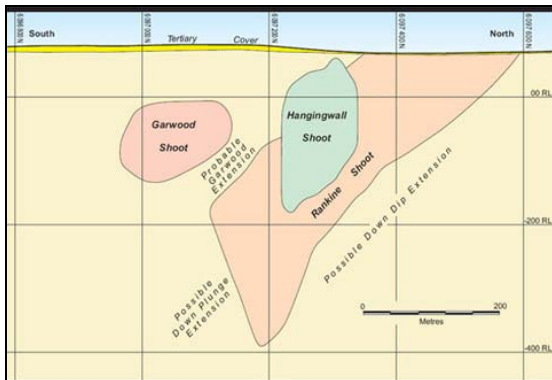
Sector
Materials – Base Metals

Risk Rating
HIGH

Short term <12m
BUY

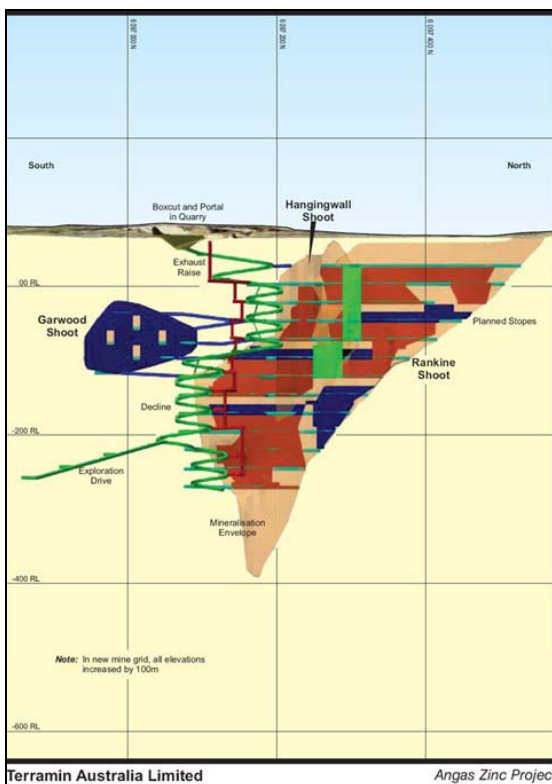
Long Term > 12m
BUY

Figure 6: Angas Longitudinal Section



Source: Company Data

Figure 8: Underground Mine Design



Source: Company Data

Figure 7: Resource and Reserves Angas Zinc Project

| | '000t | %Zn | %Pb | %Cu | g/tAg | g/tAu |
|---------------------------|--------------|------------|------------|------------|-----------|------------|
| Rankine Shoot | 2,340 | 7.2 | 3.1 | 0.3 | 35 | 0.6 |
| Hangingwall Shoot | 560 | 8.9 | 2.0 | 0.2 | 20 | 0.3 |
| Garwood Shoot | 140 | 18.7 | 6.3 | 0.4 | 79 | 1.0 |
| Indicated Resource | 3,040 | 8.0 | 3.1 | 0.3 | 34 | 0.5 |
| Probable Reserve | 2,344 | 8.1 | 3.1 | 0.3 | 33 | 0.5 |

Source: Company Data

Within the global resource, the Garwood shoot has modest tonnes but very high Zn+Pb grades. Early access to Garwood ore should allow blending with lower grade ores from the other shoots.

The reserve calculation assumes 10% dilution, 2.5m stoping widths and 85% stope recoveries. The mine life for Angas is approximately 7 years.

Mining – Simple Single Decline Underground Operation

Angas will be mined from underground utilising long hole stoping with hydraulic and cemented fill. Sublevel access will be established at 25m for Rankine and 15m for Garwood. A 50m crown pillar has been designed to prevent the unlikely inflow of water from 1m deep surface effluent ponds. Decommissioning of the ponds over the next 18 months will allow future access to this ore.

Access to the mine is via a single (5x5m) decline, recently named the Rankine Decline. While the boxcut and portal have been established on time, poor shallow ground conditions have significantly slowed decline advance. The decline is down some 75m to date, though advance rates of 4.5m per day are expected once fresh rock is intersected.

Internal vent rises will link to a 4x4m ventilation raise. The vent system will provide adequate ventilation and serve as an escape route from the mine.

Terramin will undertake its own mining and has already secured experienced locally based operators. TZN is currently operating an Atlas Copco twin boom jumbo, Volvo L90IT charge up vehicle, Toro 501 loader and Volvo 30t truck. Volvo 40t trucks, an Atlas Copco production drillrig and new loaders are expected in November 2007.

First development ore is expected in January 2008 while first stope ore will be trucked to surface by June 2008 and TZN expect to have 50kt available for dry commissioning in May 2008.

Plant Processing – Conventional Flotation

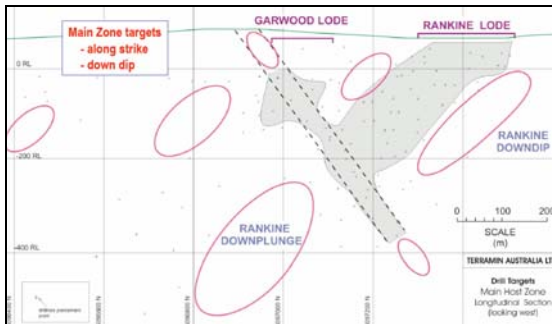
After protracted community consultation (12mths+) the 400ktpa Angas plant was approved and construction commenced in April 2007. Key management, personnel, and contractors are in place, as are the mine administration offices.

The process will involve single stage crushing, SAG milling, flotation, concentrate filtering, thickening, drying and storage. Grinding at 106µm will only be required, as the minerals are easily liberated at this coarse grind.

Two concentrates will be produced; a Pb-Cu concentrate rather than a conventional Pb only concentrate will be produced to capture the value from the gold content and should more than offset higher treatment charges due

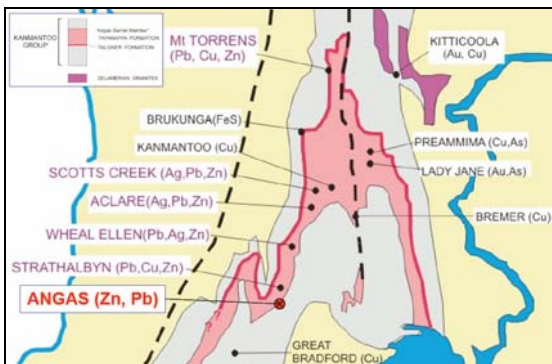
| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Figure 11: Near Mine Exploration Potential



Source: Company Data

Figure 12: Regional Prospects



Source: Company Data

(double lined with HDPE). Tails will be thickened to a high density prior to disposal, so significant spare capacity will be available should more deposits be found, acquired or toll treated.

A power deal has been struck with AGL at a fixed price, peak and off peak rate for 7 years. The power will be drawn from the ETSA grid through a 66KV/11KV substation, is to be energised by January 2008. Water will be sourced from ground aquifers and clarified through a reverse osmosis plant for process filtration purposes.

Sempra has a life of mine off-take agreement for the Angas concentrates and will pay 75% at the mine gate if necessary. The Zn concentrate will be trucked to Port Adelaide, which will involve approximately 5-6 trips per day. The Pb-Cu concentrate negotiations are still ongoing though a Port Pirie destination appears to be the most likely option (~300km haulage).

Exploration Potential – Historical Mining Region

In addition to Angas (ML6229), the Fleurieu project comprises four main exploration licenses (EL3128, EL3792, EL3310 and EL3641) over a historically prospective exploration region.

Historic Pb-Zn and Cu mines, all with modest production output are common across the project area. The largest deposit is the Kanmantoo Cu mine which had past production of ~4mt of ore. Hillgrove Resources who now hold the deposit have completed a feasibility study on a much expanded resource base of 33.44mt @ 0.9% Cu, 0.2g/t Au and 2.8g/t Ag.

While TZN is focussed on Angas, work has commenced to evaluate 30 exploration targets, of which 10 are under shallow Murray Basin cover. Importantly, near mine exploration will also test numerous new and previously defined geophysical targets (IP, EM and magnetics) to close the deposit and assess the potential for ore repetitions.

Mineralisation 10km to the north (Wheal Ellen, Hillgrove) has also confirmed the potential of the region. These opportunities all provide further mine life extension options for the Angas project.

Angas Project Assumptions

We have used the following assumptions to model the Angas project;

- Preproduction capital of A\$64m with total project capital of A\$77m.
- Production commencing from Q308 through to 2014.
- Annualised mill throughput capacity of 400ktpa.
- Production of a 52% Zn concentrate and Pb-Cu concentrate with 48% Pb and 3.4% Cu.
- Average total cash operating costs of A\$78/t of milled ore have been applied.
- \$45m of debt funding to be drawn down with the remaining needs supplied through existing cash balances.
- Hedging applied to 50% of production on a rolling 13 month basis.

The Angas project is expected to produce **324kt** of Zn concentrate and **129kt** of Pb-Cu concentrate. This equates to 168kt Zn in concentrate, 62kt Pb, 4kt Cu, 1.8moz Ag and 26koz Au over the project life. Peak annual production

TERRAMIN AUSTRALIA LTD (TZN)

RESEARCH



| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

should reach 60kt of Zn concentrate and 24kt Pb concentrate. The Zn cash costs for Angas net of by-product credits average **US\$0.43/lb** for the life of the project (Tolhurst estimates).

Angas Valuation

Based on our cash flow model and metal price assumptions we expect Angas to generate total project revenues of **A\$455m**. The project should operate at a 60% EBITDA margin and also generate net cash flows of **A\$146m**.

Using a nominal 10% discount rate our NPV for the Angas project is **A\$87m** or **A\$0.74** per share. If we apply an 8% discount rate we generate an NPV of A\$96m or A\$0.82 per share. A flat Zn price assumption of US\$1.55/lb drives the value to \$177m or A\$1.51 per share for the project.

Angas Risks – Low

The key risks we see for Angas include:

- Increase in decline cost due to poor ground conditions near portal.
- Meeting the ore delivery schedule, especially if development progress is hampered due to poor ground conditions.
- Plant construction is dependant on delivery of key items by January, while dry commissioning is planned for May 2008.
- Plant ramp up could take longer than expected due to previously un-trialed ore (though this should be low risk).
- Meeting all agreed community and environmental limits and any potential new community issues, may continue to be an expensive burden.

Financing - Angas

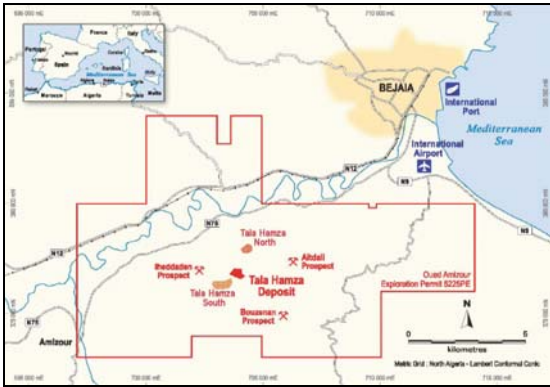
TZN had net cash of A\$28.9m at the end of September 2007, supplemented by a placement of 6.555m shares at A\$3.20 to raise A\$21m in July 2007.

TZN has secured a senior loan facility of **A\$67m** through Investec and BOS International. An Investec convertible facility for A\$10m has been drawn (triggering issuance of 4.63m unlisted options), while the \$45m construction facility is yet to be drawn with conditions precedent close to satisfaction. To satisfy the loan conditions 50% of production is hedged on a rolling 13 month basis.

The company has also drawn A\$10m of a subordinated loan through Sempra (who have secured project concentrate offtake).

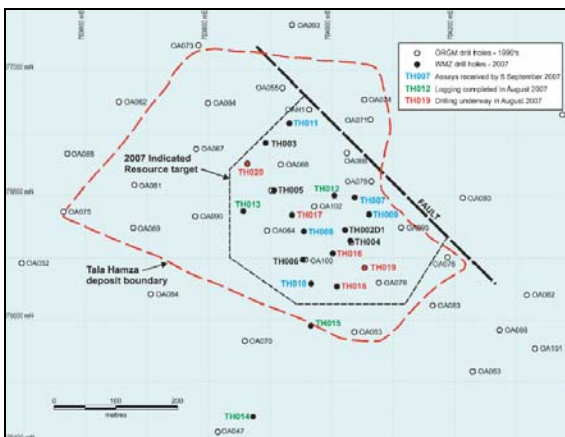
| | | | | | |
|-----------------------------|-------------------------------|-----------------------------------|----------------------------|-------------------------------|-------------------------------|
| Last Price \$2.80 | Price Target \$3.87 | Sector Materials – Base Metals | Risk Rating HIGH | Short term <12m BUY | Long Term > 12m BUY |
|-----------------------------|-------------------------------|-----------------------------------|----------------------------|-------------------------------|-------------------------------|

Figure 13: Oued Amizour Location and Leasing



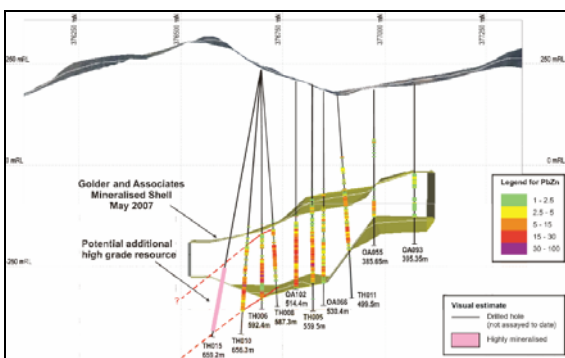
Source: Company Data

Figure 14: Tala Hamza Drill Hole Layout



Source: Company Data

Figure 15: Tala Hamza NS Section



Source: Company Data

Oued Amizour Zinc Project (65%)

The Oued Amizour project is located along the mountainous NE Mediterranean coast of Algeria, some 10km from the coastal port city of Bejaia (population 350,000) and 270km east of the capital Algiers.

The project is owned and operated by the JV Company Western Mediterranean Zn SpA (WMZ, TZN 65% and Algerian government 35%), where TZN has a pre-emptive first right of purchase.

The JV was granted a 123km² exploration permit (5225PE) in August 2006 for a period of 3 years (renewable) on the condition that US\$6.6m is spent on exploration and feasibility. TZN has expended US\$3.2m to June 2007.

The project area is host to the Tala Hamza Zn-Pb deposit (55mt @ 6.2% Zn+Pb) and at least four other highly prospective targets. TZN is currently drilling the Tala Hamza deposit and has commenced a scoping study to define the economic options available to the project.

Metallurgical testwork has indicated that a high quality +55% Zn concentrate with low iron can be produced which would be keenly sought after by smelters across Europe (Spain, Sardinia, Netherlands) and Asia.

Geology and Mineralisation – Altered 100m thick orebody

Regionally, the Zn-Pb deposits are associated with a volcanic complex within an Alpine thrust zone which stretches along the northern coast of Algeria. The Oued Amizour complex comprises upper dacitic and rhyolitic volcanics and lower andesitic volcanics with dioritic-granitic plutonic intrusives on the margins of the volcanic complex.

The footwall and hangingwall rocks are competent though the mineralisation is associated with sericitised and kaolinised host rocks. Ore grades vary from low grade disseminated sphalerite to sub massive ore and higher grade vuggy brecciated sulphides.

The deposit lies 270m below the mountainous surface and has an average thickness of 98m, though zones over 200m are not uncommon. While essentially flat lying, exploration has located a steeper higher grade southerly dip to the orezone. The mineralisation forms a 500m x 600m foot print.

Tala Hamza has an average grade of 6.2% Zn+Pb, however steeper and much higher grade shoots are common within the deposit. Intervals such as 60m @ 12.43% Zn+Pb (TH007) and 83m @ 12.18% Zn+Pb (TH010) typify significant width high grade zones.

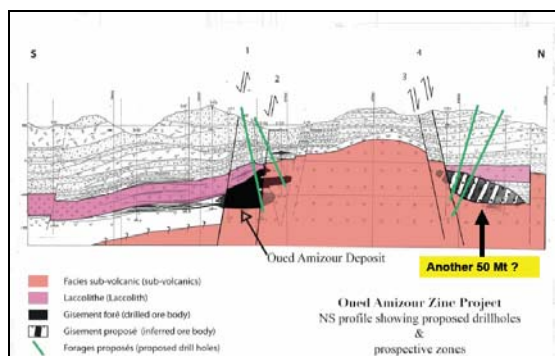
Mineral Resources – Big tonnes, improving grades

The Oued Amizour area was drilled by the ORGM, the government’s exploration and geological unit from 1989-1994. As a result a non JORC grade core of 11mt @ 10.9% Zn and 3% Pb within a total resource of 30mt @ 5.5% Zn and 1.4% Pb was defined.

WMZ commenced drilling the Tala Hamza deposit in April 2007 in order to validate the older drilling, increase the drill density and collect core for metallurgical testwork. Twenty diamond holes (TH001-TH020) have been drilled to date with average lengths of 600-700m. An additional 17 holes will be drilled by years end to collect enough data to compile an Indicated resource.

| | | | | | |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Figure 16: Regional Cross Section & Targets



Source: Company Data

Two diamond rigs are operating and an additional 2 rigs will be used to drill the deposit to a 50m x 50m pattern. Analytical turnaround times have forced TZN to switch the analysis from Australia to Ireland. The company has also established a sample preparation facility in the nearby town Bejaia.

In May 2007, TZN announced an Inferred resource at Tala Hamza, calculated by Golders within a 1% Zn wireframe model. The resource was based on drillhole data from 30 ORGM holes and 4 recent WMZ holes.

Figure 17: May 2007 Resource Tala Hamza

| Category | Cutoff % | Mt | %Zn | %Pb |
|-------------------|----------|----|-----|-----|
| Inferred Resource | 2.5 | 55 | 5.0 | 1.2 |
| Inferred Resource | 5.0 | 20 | 7.2 | 2.0 |

Source: Company Data

Since the Inferred calculation, further drilling and recent assays have been used to update an internal model. TZN has commissioned Worley Parsons and Golders (20 man technical team) to complete a scoping study by years end and a pre-feasibility study by August 2008.

To date results from the older ORGM holes and the new WMZ holes have highlighted significant improvements in grade. Importantly core recoveries have increased from 65% to 98% as a result of better drilling equipment and technology and therefore resulted in more representative and consistently higher grades. Furthermore the improved drilling capability has and will continue to allow complete testing of the full orezone thicknesses.

A comparison of the high grade zones drilled in OA100 (drilled 1994) and TH006 (drilled 2007) highlights the significant improvements;

Figure 18: Comparison between Twinned Diamond Drillholes

| Hole | From | To | m | Zn+Pb % | Rec % |
|-------|--------|--------|-------|---------|-------|
| AO100 | 477.50 | 529.75 | 52.25 | 9.28 | 65 |
| TH006 | 477.42 | 562.00 | 52.58 | 18.72 | 97 |

Source: Company Data

Metallurgical Testwork – Clean sought after concentrates

Metallurgical testwork from WMZ hole TH002 has established Zn concentrate grades of +55% (+65% Pb concentrate grades) at +85% recovery and low iron content (3-4%) are possible. The test work was performed using a medium grind of 53um. More recently Zn recoveries of 90% were achieved at concentrate grades above 52% Zn.

Exploration Upside – Plenty more prospectivity

The Qued Amizour project has a number of prospective Zn-Pb occurrences including the Tala Hamza North (3.1m @ 1.85% Zn) prospect, the Tala Hamza South deposit (22mt @ 3.54% Zn+Pb), and the Aitdali, Bouzenan, Iheddaden prospects.

As yet no regional exploration has been undertaken by WMZ, however two additional rigs will provide the capacity to review the regions greater prospectivity.

| | | | | | |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Tala Hamza Project Assumptions

We have used the following assumptions to evaluate the Tala Hamza project;

- Project ownership has been maintained at 65% (although it is highly likely the government will sell down its interest).
- From the total resource base of 2.75mt of contained zinc, we have assumed extraction of 30.3mt @ 7.8% Zn and 1.77% Pb (2.36mt contained Zn)
- Underground production is expected to commence from Q1 2011 and continue to 2021, i.e. ~11 year mine life. We ramp up from 1.5mtpa to 3mtpa by 2014.
- Based on twin hole data and internal high grade shoots, we expect extraction of higher grade zones early in the mine plan. We have adopted a declining grade profile from 9% Zn to 7.2% Zn. We highlight TZN believes 12% Zn is highly likely.
- We have assumed total cash operating costs of A\$57.5/t for the project.
- Capital requirements for the project are estimated at US\$200m total.
- We have assumed a 40% equity 60% debt funding package.

Based on our 11 year mine life the Tala Hamza project is expected to produce **2.43mt** of Zn concentrate containing **1.33mt** of Zn and **418kt** of Pb concentrate containing **272kt** of Pb. We envisage maximum annual production to reach 250ktpa of Zn concentrate (&55ktpa Pb con.) early in the mine life when maximum grades are extracted. The Zn cash costs net of by-product credits average \$US0.35/lb for the project (Tolhurst estimates).

Tala Hamza Valuation

We expect this deposit to generate over A\$2.5bn in gross revenue and A\$831m of net cash flow for TZN. Based on our metal price assumptions and average cash costs of A\$57.5/t of ore feed our un-risked net present value for Tala Hamza using a 10% discount rate is A\$289m or A\$2.47 per share. Using an 8% discount rate the un-risked NPV is A\$348m or A\$2.97 per share.

Assuming a flat Zn spot price of ~US\$1.55/lb the un-risked NPV for Tala Hamza is \$831m or \$7.10 per share.

While the Tala Hamza project is robust there are a number of hurdles which must be passed prior to production in 2011. As such we have applied a 70% risk rating to the NPV to generate a value of **\$202m or \$1.73 per share**.

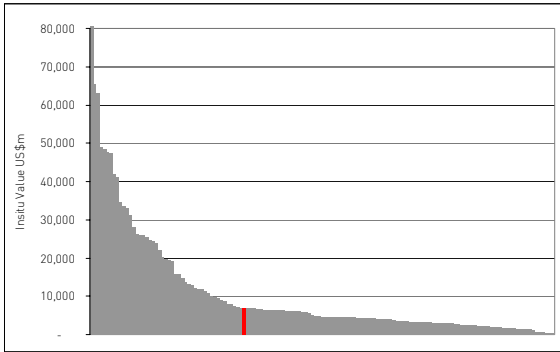
Tala Hamza Risks - *Moderate*

Given the assessment at Tala Hamza is still at an early stage, we see the following risks being of most importance:

- Our long term metal assumptions are more optimistic than pessimistic, metal prices will be important given the low grade of the total resource.
- The deposit appears to be highly altered and the incompetency of the ore zone may pose geotechnical challenges. For example our assumption of using a more selective mining approach to extract higher

| | | | | | |
|-----------------------------|-------------------------------|--|----------------------------|----------------------------------|----------------------------------|
| Last Price \$2.80 | Price Target \$3.87 | Sector Materials – Base Metals | Risk Rating HIGH | Short term <12m BUY | Long Term > 12m BUY |
|-----------------------------|-------------------------------|--|----------------------------|----------------------------------|----------------------------------|

Figure 19: Insitu Premine Value Zn Deposits



Source: Tolhurst (dataset of 143 deposits, Tala Hamza= red)

grade shoots may be difficult to achieve in practice.

- The US\$200m in development funding may take some time to lock in (our US\$200m capital estimate could also vary considerably).
- Operating in Algeria does pose a level of risk which will require management.
- Our operating cost assumptions may vary based on study outcomes.

Global Zn Deposits

A review of global Zn deposits places Tala Hamza in the 3rd quartile with respect to contained Zn. On a peer group basis this deposit cannot be strictly classified as world class, given its present characteristics. However the established giants are being depleted by mining and average grades are falling.

Average mine grades are reportedly trending down from the historic 5-6% Zn range to around 4% Zn. This reduction consequentially improves the relative value of Tala Hamza.

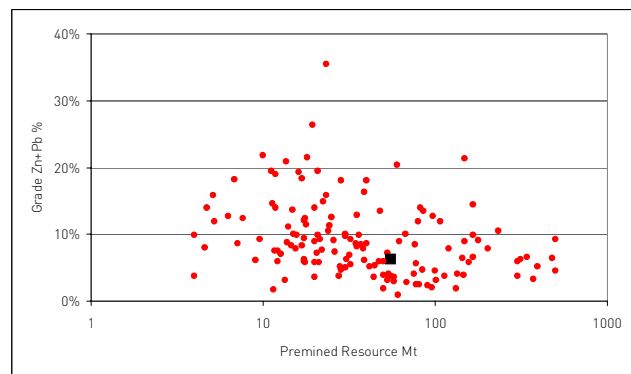
On a contained pre-mined metal basis Tala Hamza (2.75mt) sits well below the major deposits such as Broken Hill (27.4mt), Red Dog Camp (27mt), McArthur River (19mt), Mt Isa camp (18mt) and Dugald River (5.8mt). As previously indicated this only serves to compare the initial characteristics of the deposits and not the altered global supply characteristics.

Tala Hamza is positioned comfortably within the 3rd quartile or ranked 64/100 on a contained Zn basis. Using spot prices, the insitu value of the deposit is well above US\$6bn and has similar characteristics to the Endeavour Mine (CBH Resources) including, contained value, size and grade.

Interestingly Zinifex Ltd recently reported that attractive Zn deposits are those with over 2mt of Zn. Clearly, Tala Hamza would fall into this criteria and therefore engender interest amongst the resources majors.

Along with improving grades, exploration success at Tala Hamza and Oued Amizour could position this “camp” further up the world rankings.

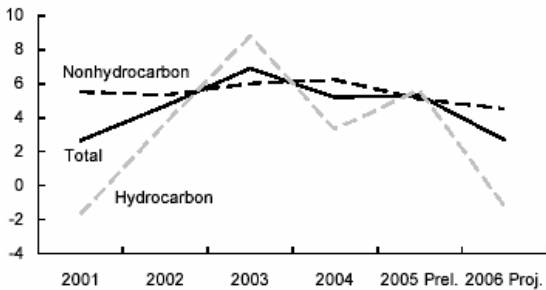
Figure 20: Grade Tonnage Distribution



Source: Tolhurst Research, (Tala Hamza= square)

| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Figure 21: Real GDP Growth 2001 – 2006



Source: Algerian Authorities and IMF

General Algerian Background

Algeria is the second largest and one of the richest countries in Africa with a population of ~33m. After considerable effort the country gained independence from France in 1962.

Oil forms the backbone of the Algerian economy with reserves ranking 14th in global terms. With a strong oil producing capability, it is no wonder the country has benefited from the recent surge in oil and gas prices. The government has used the additional funds to improve infrastructure, industry and agriculture as well as to attract overseas investment.

The port of Bejaia which is ~10km from Tala Hamza is an important petroleum port. It is also a key Mediterranean trade zone, has an international airport, and the key receiving point for the Saharan oilfield pipelines.

In 2001 a new Algerian mining law was enacted, which has resulted in over 1800 new licenses granted to both domestic and overseas companies. The country has a corporate tax rate of 30% and a 2% royalty exists on mineral extraction though this appears to be subject to negotiation.

Mineral resource management is controlled through the National Geology and Mining Control Agency (ANPN) and the Office National de Recherche Géologique et Minière (ORGM). Enterprise Nationale Des Produits Miniers Ferreux et des Substances Utiles (ENOF), a government owned mining company and ORGM hold the 35% share of WMZ and Oued Amizour.

Between 2000 and 2003 Algeria produced approximately 3,000tpa of Zn in concentrate, this increased to 4,414t of zinc in concentrate by 2005 from the El Abed project.

Country Risk

The IMF Country Report 07/72 – Feb 2007, suggested that “a favourable external environment and appropriate macroeconomic policies have contributed to Algeria’s encouraging economic performance over the past five years”. The report also suggests that Algeria’s economic outlook for the medium term is favourable, given the high world hydrocarbon prices. Furthermore, Algeria’s key challenges are to achieve sustained growth and reduce unemployment, while maintaining macroeconomic stability.

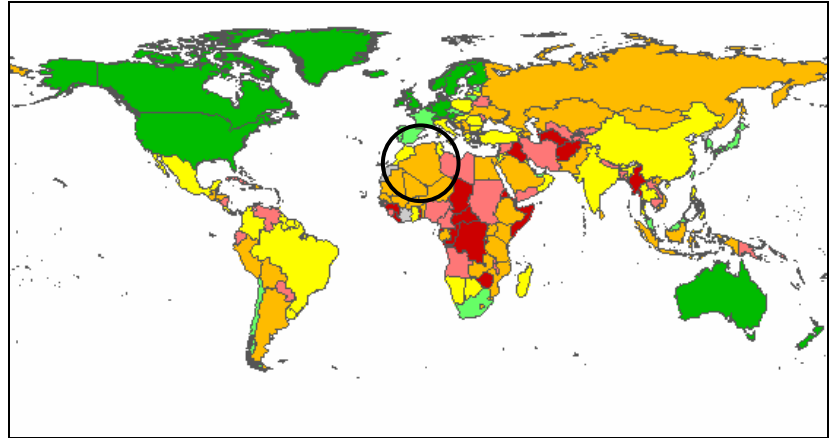
Aside from economics, religious based fundamentalist activities in the mid east region have also affected Algeria, with sporadic terrorist related violence reported.

We have reviewed a number of ranking approaches to take a generalised view on country risk. It is clear that while this risk cannot be totally discounted, doing business in Algeria should attract a moderate to low risk rank especially when compared to peer group countries.

We have used the World Bank’s “government effectiveness” indicator; a rank of the quality of public services and their degree of independence from political pressures to aid our evaluation. At a high level, Algeria ranks well when compared to many other African, especially central African countries.

| | | | | | |
|----------------------|------------------------|-----------------------------------|----------------------------|-------------------------------|-------------------------------|
| Last Price \$2.80 | Price Target \$3.87 | Sector Materials – Base Metals | Risk Rating HIGH | Short term <12m BUY | Long Term > 12m BUY |
|----------------------|------------------------|-----------------------------------|----------------------------|-------------------------------|-------------------------------|

Figure 22: World Governance Indicators – Government Effectiveness



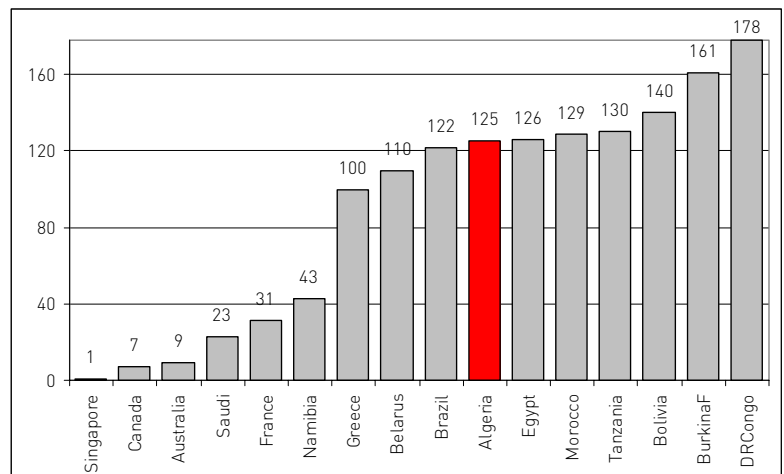
Source: World Bank, (green represents 90th-100th percentile while red is 0-10th percentile)

We have also reviewed the “Country Risk Classifications of the Participants to the Arrangement on Officially Supported Export Credits” as defined by the OECD. Essentially this risk classification helps the OECD identify which jurisdictions it would provide export insurance for.

Algeria has a ranking of 3 as does Morocco and Tunisia (maximum of 7). Egypt has a ranking of 4 while Australia and other westernised countries are ranked 0. At the bottom end Sudan and Nigeria rank 7. This measure provides further confidence that certain economic risks are manageable.

Finally, the World Bank has a ranking mechanism termed the “Ease of Doing Business Rank” where 178 countries have been assessed on 10 criteria important for business. Algeria ranks 125/178 which, while sounding poor, is similar to the ranking for Brazil and Egypt, and significantly better than the Democratic Republic of Congo which is ranked last.

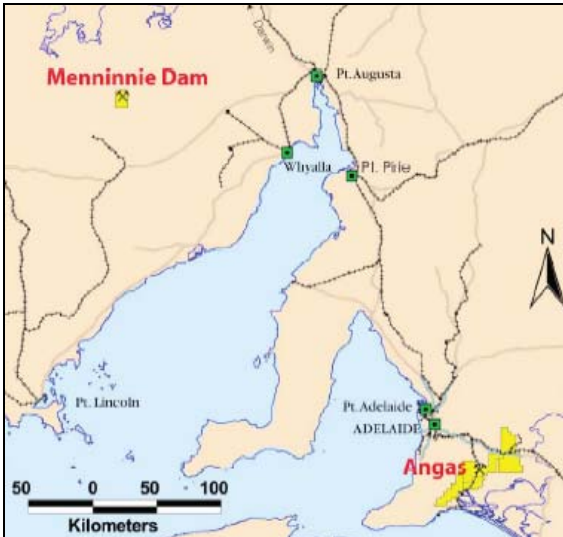
Figure 23: World Bank Ease of Doing Business Ranking



Source: World Bank, www.doingbusiness.com

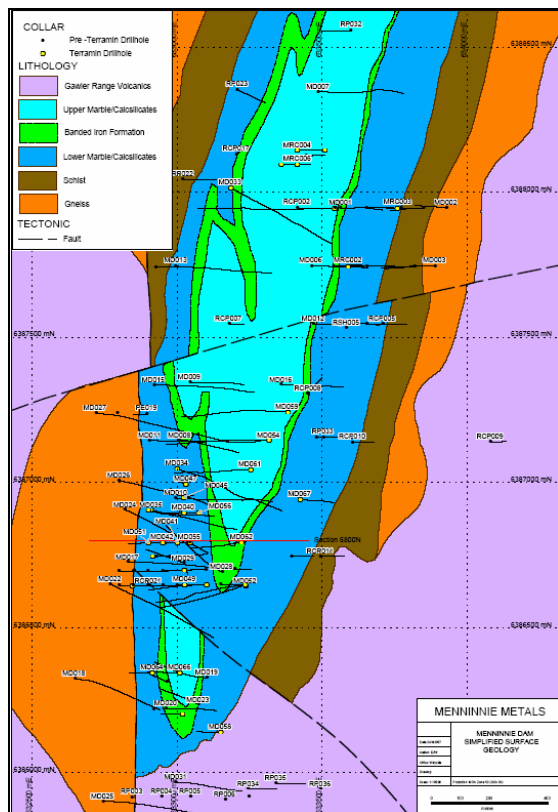
| | | | | | |
|-----------------------------|-------------------------------|--|----------------------------|----------------------------------|----------------------------------|
| Last Price \$2.80 | Price Target \$3.87 | Sector Materials – Base Metals | Risk Rating HIGH | Short term <12m BUY | Long Term > 12m BUY |
|-----------------------------|-------------------------------|--|----------------------------|----------------------------------|----------------------------------|

Figure 24: Location Plan of Menninnie Project



Source: Company Data

Figure 25: Regional Geology



Source: Company Data

MENNINNIE DAM ZINC PROJECT (24%)

Menninnie Dam (EL 3640) is a highly prospective Zn-Pb-Ag project located 130km WNW of Port Augusta and 55km north of Kimba on South Australia’s Eyre Peninsula. Menninnie is acknowledged as the largest Zn-Pb deposit in South Australia.

The project is a JV between Menninnie Metals Ltd (30%) and Zinifex (70%), where TZN has an 80% interest in Menninnie Metals. Zinifex has earned the right to acquire a 70% interest in the JV and management control since recently expending an agreed A\$8m.

The deposit was initially discovered, and explored by Shell, from 1981 to 1988, after which it was evaluated by numerous players including Aberfoyle Resources, Acacia Resources and Western Metals. Terramin acquired its interest in 2003.

Geology and Mineralisation – A mineralised window

Geologically the region comprises of carbonate rocks within a window in the Gawler Range Volcanics. Discontinuous Zn-Pb-Ag (± Cu-Au) mineralisation has been found along a strike length of 6km, and appears to cross cut the stratigraphy. The mineralisation consists of massive pyrite, sphalerite, galena and minor chalcopryite.

Drill hole intersections vary from 1m to over 15m in length while grades can vary from 5% Zn+Pb to well over 20% in thin high grade zones. Drilling announced in the March 2007 quarter highlighted an intersection of 10.6m @ 7.3% Zn+Pb and 349g/t Ag.

Resource Potential – A large accumulation of base metals

Since discovery, various resource figures have been assigned to Menninnie. The estimates vary from an initial 1.7mt resource size through to a 20mt @ 7% Zn+Pb mineralised envelope (Aberfoyle). In 1999 Western Metals reviewed the data and determined 2mt @ 9% Zn equivalent was possible, though suggested the mineralisation showed poor correlation.

Over the last 2.5 years the Menninnie Metals JV has drilled 35 additional diamond holes, 26 RC holes, aircore holes and detailed induced polarisation surveys in order to demonstrate that mineralisation is traceable over significant distances.

An inferred resource for the Menninnie Central zone based on some 20,000m of drilling over a 2km strike is due for public release by the end of 2007. It is expected that a figure around 7mt will provide a solid initial foundation for the highly mineralised region.

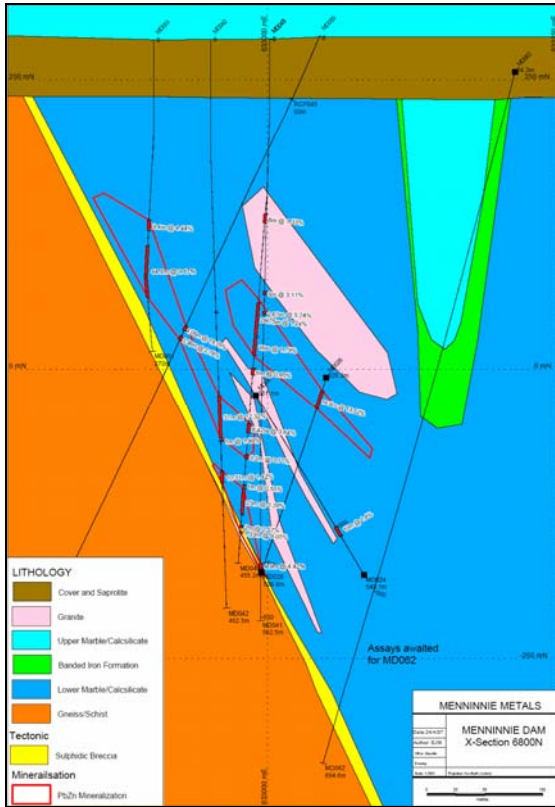
Followup Activity – Much more mineralisation to test

Drilling has ceased for the remainder of 2007 and will most likely resume in early 2008. During this period, while resource figures are being calculated further induced polarisation and electromagnetic surveying will be completed.

Other leases within the Gawler Craton which have exploration potential and require followup include Ingomar – EL2969, National Trig – EL3039 and Phar Lap – EL2987. Potential targets include IOCG deposits and precious and base metal deposits.

| | | | | | |
|----------------------|------------------------|-----------------------------------|---------------------|------------------------|------------------------|
| Last Price \$2.80 | Price Target \$3.87 | Sector Materials – Base Metals | Risk Rating HIGH | Short term <12m BUY | Long Term > 12m BUY |
|----------------------|------------------------|-----------------------------------|---------------------|------------------------|------------------------|

Figure 26: Typical Cross Section - Menninnie



Assumptions and Valuation

We have not compiled a discounted cash flow for Menninnie given the uncertainty of the resource size. Our valuation is based on comparative values for Angas and peer group valuations per tonne of Zn.

Given the deposit could be significantly larger than Angas; the potential economies of scale should make it a more profitable deposit. Using a resource estimate range of 7mt – 20mt at 7% Zn+Pb we believe TZN's 24% value could range between A\$21-A\$156m.

Using our approach we have assigned a value of **A\$55m** for TZN's share of the Menninnie Dam project.

Considering the interest that Zinifex has displayed in Menninnie we would not be surprised in an attempt by that company to secure this project in its entirety.

TERRAMIN AUSTRALIA LTD (TZN)

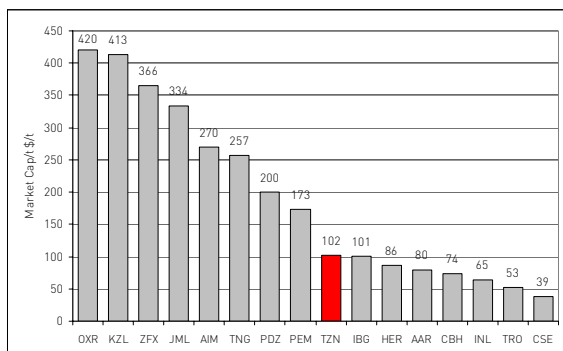
RESEARCH



TOLHURST

| | | | | | |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Figure 27: Market Cap/t ASX listed Zn Stocks



Source: IRESS, Tolhurst Research, Company Data

PEER GROUP COMPARISON

Resource Value

A review of the market value assigned per tonne of resource for the Australian zinc participants suggest the attributable value for TZN may be low. Clearly premiums have been assigned to the majors; Oxiana, Zinifex and Kagara Zinc, though CBH Resources and Perilya are not as highly prized using this approach.

The total weighted average value for the peer group is A\$354/t versus the TZN value of A\$102/t, however the peer group average is influenced by the size of Oxiana and Zinifex. A weighted average for just the emerging and Zn hopefuls at A\$173/t, lies well above the TZN value.

On this (high level) basis, a A\$173/t value for TZN could justify a share price over A\$4.00 per share.

Figure 28: Market Capitalisation/t of Zinc Companies on the ASX

| Company Name | Code | Mt | % ZnEq | Mt ZnEq | Mcap \$m | \$/t |
|--------------------------------|------|-------|--------|---------|----------|------------|
| Producers/Near Producer | | | | | | |
| Oxiana | OXR | 491.7 | 2.9% | 14.3 | 6005 | 420 |
| Kagara Zinc | KZL | 69.2 | 5.0% | 3.5 | 1429 | 413 |
| Zinifex | ZFX | 153.0 | 15.9% | 24.3 | 8876 | 366 |
| Jabiru Metals | JML | 15.6 | 13.2% | 2.1 | 688 | 334 |
| Perilya Limited | PEM | 24.2 | 20.0% | 4.8 | 840 | 173 |
| Terramin Resources | TZN | 38.8 | 7.0% | 2.7 | 279 | 102 |
| CBH Resources | CBH | 58.7 | 10.7% | 6.3 | 467 | 74 |
| Weighted Average | | | | | | 366 |
| Emerging | | | | | | |
| Metals Australia | MLS | 1.1 | 7.6% | 0.1 | 54 | 676 |
| Aim Resources | AIM | 6.7 | 16.9% | 1.1 | 307 | 270 |
| Tennant Creek Gold | TNG | 10.5 | 4.0% | 0.4 | 108 | 257 |
| Prairie Downs Metals | PDZ | 2.5 | 9.8% | 0.2 | 49 | 200 |
| Ironbark Gold | IBG | 18.0 | 8.9% | 1.6 | 162 | 101 |
| Herald Resources | HER | 10.6 | 24.5% | 2.6 | 222 | 86 |
| Anglo Australian Resources | AAR | 5.6 | 10.0% | 0.6 | 45 | 80 |
| Intec | INL | 11.0 | 10.2% | 1.1 | 73 | 65 |
| Tri Origin Minerals | TRO | 10.1 | 21.5% | 2.2 | 116 | 53 |
| Copper Strike | CSE | 23.3 | 4.4% | 1.0 | 40 | 39 |
| Weighted Average | | | | | | 173 |
| Total Weighted Average | | | | | | 354 |

Local Production

The largest Zn producer in Australia over 2006/07 was Zinifex with **585kt Zn and 61kt Pb** while Oxiana produced **139kt of Zn** in 2006. Perilya's production was lower at **92kt Zn and 61kt Pb** and CBH Resources produced **52kt Zn and 26kt Pb**.

To put TZN's production capability into perspective, Angas should produce **24-31ktpa of Zn and 10-12kt Pb**, while Tala Hamza could average annual production of **121kt Zn and 25kt Pb**. Clearly on a combined basis TZN could be a significant Australian based producer of Zn and Pb.



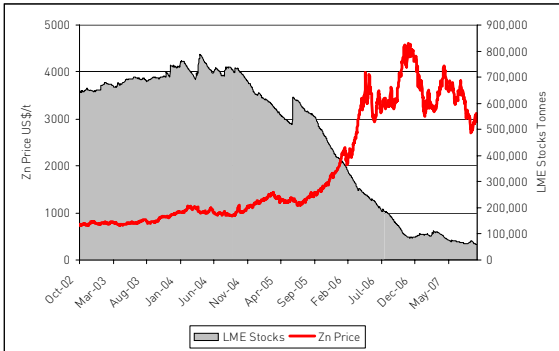
TERRAMIN AUSTRALIA LTD (TZN)

RESEARCH

TOLHURST

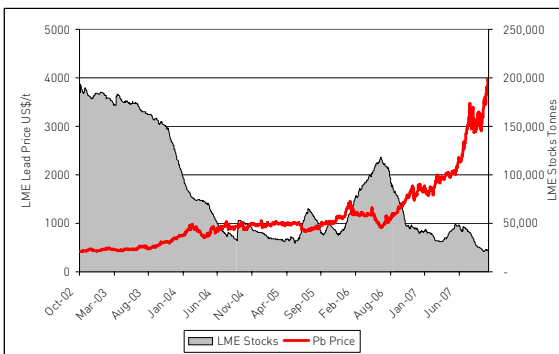
| | | | | | |
|-----------------------------|-------------------------------|--|----------------------------|----------------------------------|----------------------------------|
| Last Price \$2.80 | Price Target \$3.87 | Sector Materials – Base Metals | Risk Rating HIGH | Short term <12m BUY | Long Term > 12m BUY |
|-----------------------------|-------------------------------|--|----------------------------|----------------------------------|----------------------------------|

Figure 29: LME Zinc Price and Stocks



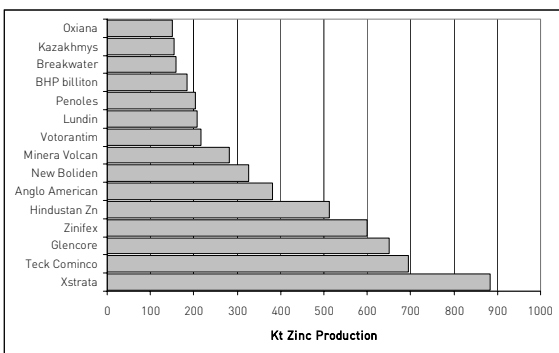
Source: IRESS

Figure 30: LME Lead Price and Stocks



Source: IRESS

Figure 31: Major Zinc Mine Producers 2006E



Source: Xstrata, Brook Hunt

INDUSTRY DYNAMICS

Price and Stockpile Action

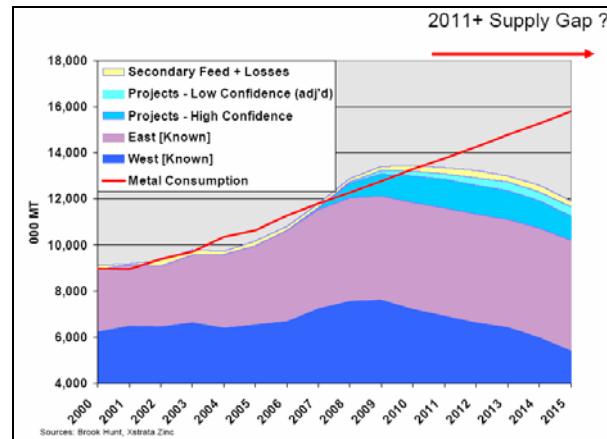
LME Zn stocks have fallen to extremely low levels in less than four years with current stocks sitting at record lows of 60kt. Surprisingly metal prices have not reacted as positively as expected, most likely due the more rapid than expected increase of mine production over the first half of 2007. LME Zn prices have averaged US\$3,418/t (US\$1.55/lb) over the first half after averaging \$3,275/t for the 2006 year.

Lead has also been a star performer averaging US\$1,286/t in 2006 and for 2007 to date the metal has averaged US\$2,443/t. Spot prices are also at all time highs trading at US\$3,918/t, substantially higher than the zinc price. The supply constraints have reduced stockpiles from 184kt in 2002 to critical lows of 22.5kt in October 2007.

Zn Supply Demand Balance

While the zinc market is expected to move near balance in 2007 and into surplus by 2008, the dynamics remain tight, yet volatile. Over the longer term, key industry participants such as Xstrata and Teck Cominco have previously flagged that supply uncertainty will culminate in a supply gap from 2011. We have adopted this outlook in order to assign our Zn price forecasts, and thus our view on TZN.

Figure 32: Supply Demand Balance



Source: Xstrata

Consumption growth has averaged over 4%pa from 1994-2006, and is expected to accelerate to over 5% given the demand from China and India. While mine supply is expected to bring on some 600-700ktpa to meet this demand growth this may drop to less than 400ktpa by 2011 and thereby create greater pressure on the Zn price.

Figure 33: Consensus Production Consumption Estimates

| Mt | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------|------|------|------|------|------|
| Production | 10.7 | 11.5 | 12.3 | 13.1 | 13.5 |
| Consumption | 11.1 | 11.5 | 12.2 | 12.8 | 13.3 |
| Balance | -0.4 | -0.1 | 0.2 | 0.3 | 0.2 |
| Weeks Demand | 2.0 | 1.6 | 2.3 | 3.3 | 4.1 |

Source: Company Data, ABARE, Tolhurst Research



| | | | | | |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Figure 34: Forecast Zn Production Sources

| New Projects | Company | Capacity | Startup |
|---------------|---------------|----------|---------|
| San Cristobal | Volcan | 260 | 2007 |
| Lennard Shelf | Xstrata/Teck | 75 | 2007 |
| Aljustrel | Lundin | 75 | 2007 |
| Aguas Tenidas | Iberian | 50 | 2007 |
| Jaguar | Jabiru | 34 | 2007 |
| Antamina | Teck/BHP | 155 | 2007/08 |
| Mt Isa | Xstrata | 135 | 2007/08 |
| Shaimerden | Glencore | 55 | 2007/08 |
| Langlois | Breakwater | 50 | 2007/08 |
| Cerro Lindo | Minera Milpo | 80 | 2008 |
| Duddar | MCC Resources | 55 | 2008 |
| Mungana | Kagara | 50 | 2008 |
| Rasp | CBH Resources | 38 | 2008 |
| Ozernoye | Lundin | 300 | 2008/09 |
| Perkoa | Aim Resources | 70 | 2008/09 |
| Dairi | Herald | 140 | 2008/09 |
| Perseverance | Xstrata | 115 | 2009 |
| Panorama | CBH Resources | 48 | 2009 |

Source: Xstrata, Teck Cominco, Tolhurst Research

BOARD AND MANAGEMENT

Dr. Kevin Moriarty – Executive Chairman

Kevin is an accomplished geologist and geophysicist with a long career in the minerals and petroleum industries. He has held the role of Chairman and MD of Tarcoola Gold Ltd. and acted as the principal of a geological consultancy. He has been involved in projects with Santos, Sydney Oil Co., Inco Ltd. and Union Oil.

David Paterson – Director

David graduated as a geologist and spent his early career in the Australian minerals industry with Zinc Corporation, Minerals Mining & Metallurgy, New Guinea Goldfields and BHP Exploration. He also has 17 years experience in capital markets and finance. Mr. Paterson is a senior consultant with Prescott Consultants.

Steve Bonnett – Director

Mr Bonnett is a former partner of Finlaysons Lawyers. He is recognised as an expert in the field of corporate and commercial law and corporate governance.

Michael Kennedy – Director

Mr Kennedy has a degree in Commerce (Economics) and has worked with the Department of Industry & Trade and at Humes Limited. His focus is on export and marketing. He was resident Director of the Korea Zinc group of companies in Australia from 1991 until early 2005.

Jim Hazel - Director

Mr Hazel is an experienced company director, with an executive background including periods as managing director and as a senior executive in a number of listed companies, notably as chief general manager of Adelaide Bank.

Key Management

Terramin has also compiled an impressive and experienced management team with significant corporate and operational backgrounds. They include:

Robert Singer – Chief Geologist

Andrew Robertson – General Manager Operations

Martin Janes – Chief Financial Officer

Colin Jackson – Corporate Consultant

Kate Bitter – Company Secretary & Legal

Mark Terry – Financial Controller

John Burgess – GM Angas

Jonathon Trewartha – Project Manager Tala Hamza

Charlotte Hy – Principal Geologist Oued Amizour

Jol Jardine – Mine Manager Angas

Geoff Hodgson – Principal Geologist Fleurieu

Ken Cross – Principal Geologist Menninnie

Peter Mitchell – Manager Business Development

TERRAMIN AUSTRALIA LTD (TZN)

RESEARCH



| Last Price | Price Target | Sector | Risk Rating | Short term <12m | Long Term > 12m |
|------------|--------------|-------------------------|-------------|-----------------|-----------------|
| \$2.80 | \$3.87 | Materials – Base Metals | HIGH | BUY | BUY |

Tolhurst's Recommendation and Risk Rating system:

Recommendations are assessments of each Tolhurst Analyst's view of potential total returns over Short Term and/or Long Term time horizons. A Short Term time horizon is less than 12 months; a Long Term time horizon is greater than 12 months.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into four main categories:

Buy: Expected Total Return more than 20%

Accumulate: Expected Total Return between 5% - 20%

Hold: Expected Total Return between -5% and 5%

Sell: Expected Total Return less than -5%

Risk Ratings:

Risk is a subjective assessment of overall risk within a company including price volatility and earnings variability, external liquidity, and size. We divide our risk into three categories:

High: Company typically has high price volatility and earnings variability, low external liquidity and has a small market capitalisation.

Medium: Company typically has moderate price volatility and earnings variability, external liquidity and a medium size market capitalisation.

Low: Company typically has low price volatility and earnings variability, high external liquidity and is a large size market capitalisation

DISCLOSURE OF INTEREST

Tolhurst Ltd ('Tolhurst') and/or entities and persons connected with it may have an interest in the securities the subject of the recommendations set out in this report. In addition, Tolhurst and/or its agents will receive brokerage on any transaction involving the relevant securities.

Tolhurst may seek from the company subject to this Research Report and/or their shareholders, advisory mandates or mandates for dealings in securities, and therefore may receive commissions or fees from the companies, and/or their shareholders, at some time in the future.

DISCLAIMER

The information and opinions contained in this report have been obtained from sources Tolhurst believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete and it should not be relied upon as such. Information and opinions contained in the report are published for the assistance of recipients, but are not relied upon as authoritative and may be subject to change without notice. Except to the extent that liability cannot be excluded, no Tolhurst Group company accepts any liability for any direct or consequential loss arising from any use of material contained in this report.

GENERAL ADVICE WARNING

This report is intended to provide general advice. In preparing this advice, Tolhurst did not take into account the investment objective, the financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances.

ANALYST VERIFICATION

I verify that I, Naji Aoukar, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

This report has been reviewed by peers within the research department.