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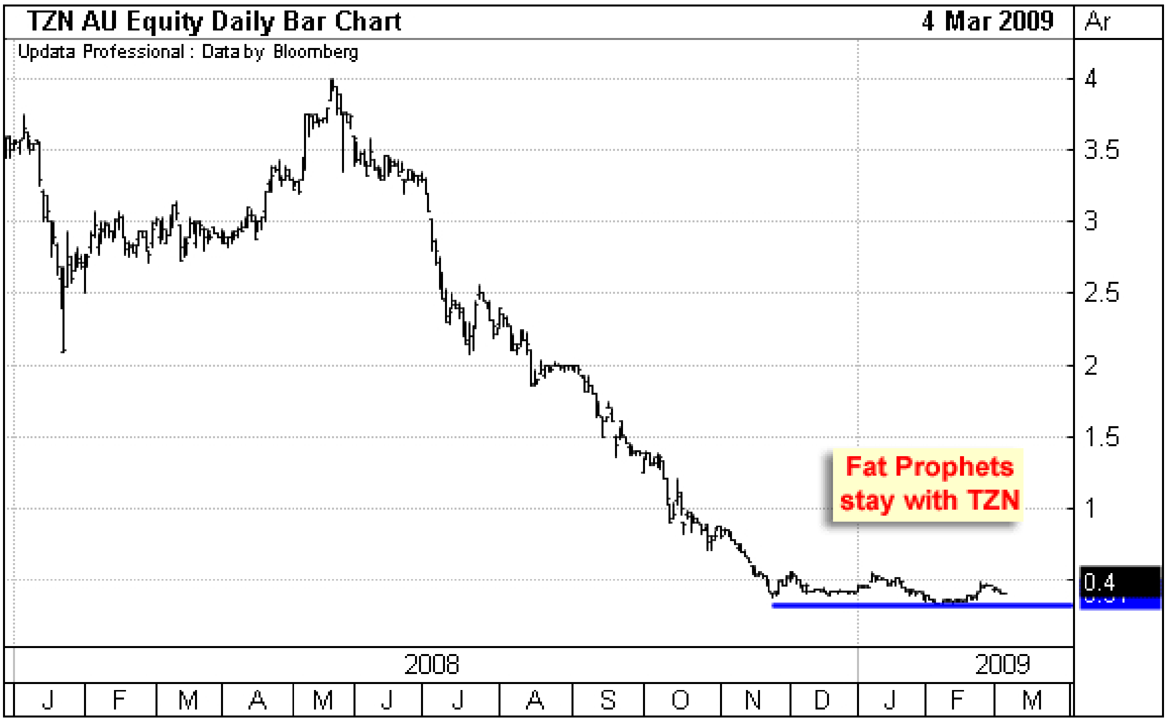
Terramin Australia 04 Mar 09

TZN

Zinc isn't necessarily a four-letter word

All of the world's zinc miners are under pressure, as no matter how efficient and low-cost they may be, all are barely breaking even, let alone making money, at current zinc price levels. So clearly something has to give. One company that is faring far better than most is Terramin Australia. The company has just made the leap from explorer/developer status to production, with the recent commissioning of its low-cost Angas zinc mine in South Australia. It will survive while others fall by the wayside.

Fat Prophets initially recommended buying Terramin Australia at 43 cents in December 2005 (Fat Mining 4). Our last review of this stock was in August (Fat Mining 136).



From a charting perspective, there has been a significant deterioration in the outlook for Terramin Australia over the past 12 months. After trading as high as $4.01 in May 2008, prices have declined substantially, trading as low as 31 cents since month.

Encouragingly, since November, downward momentum has eased, giving way to a period of consolidation and base building. However, given the depth and speed of the decline during 2008 it is likely to take some time for investor confidence to turnaround. As such, several more months of consolidation are now likely, before an uptrend can emerge.

Zinc companies have been amongst the worst performers, both from a financial and share price perspective, over the past year. And a quick look at a zinc price chart explains exactly why this is the case. Zinc's performance has been truly woeful, with demand dropping away and inventory levels rising building steadily. No-one wants the stuff, or so it seems.

This of course has put enormous pressure on the companies that actually mine the stuff. Whether it's at the big end of the Australian resource sector with Oz Minerals, or at the smaller end, all companies are under pressure. And it's not only Australia of course.

All of the world's zinc miners are under pressure, as no matter how efficient and low-cost they may be, all are barely breaking even, let alone making money, at current zinc price levels. So clearly something has to give.

Most Australian zinc miners have already cut their output back substantially in order to reduce costs, which in turn should help minimise the amount of surplus zinc sloshing around in world markets. The problem is that whilst a recovery in prices is anticipated from 2010 onwards, demand and prices right now are weak.

This means that for most zinc miners it's a case of battening down the hatches and hoping that they are financially resilient enough to outlast the storm. Only time will tell, but from our perspective the fact that so many zinc producers are currently under threat means one important thing: that current prices are unsustainable and must inevitably rise to correct the imbalance.

One company that is faring far better than most is Terramin Australia. For those unfamiliar with the story, the company has just made the leap from explorer/developer status to production, with the recent commissioning of its Angas zinc mine in South Australia.

Let's begin with the company's recently-commissioned Angas zinc mine in South Australia. The $70 million mine near Strathalbyn in the Adelaide Hills, 60km from Adelaide is 100%-owned by Terramin. The project contains Probable Reserves of 2.41 million tonnes of zinc-lead bearing ore grading 9.7% Pb+Zn, which is sufficient for an initial seven-year mining operation.

Aerial view of the Angas Zinc Mine

At full capacity, the Angas mine will produce 65,000 tonnes of zinc and 24,000 tonnes of lead-copper concentrate annually over its seven-year life. The 2009 forecast is for 49,000 tonnes of zinc concentrate to be shipped to Asian markets and 16,000 tonnes of lead-copper precious metals concentrate to be trucked to Port Pirie. Importantly, the company announced full commissioning of the project in early February.

Importantly, transport costs have fallen significantly: this reflects firstly the lower price of crude oil, with diesel being a variable cost in the contracted haulage rate; and secondly a dramatic change in the shipping market, with the ocean freight rate down by 56% compared to the pricing at the time of the company's first shipment.

Consumable costs, such as copper sulphate and grinding media have also been declining. Not surprisingly cost control has been a key focus for the company over the past few months and the company has just completed an intensive budgeting and cost review process.

Encouragingly, this has resulted in a further reduction in forecast C1 cash costs to approximately US40 cents/lb in 2009 and US36 cents/lb over the life-of-mine. This provides the company with at least some sort of financial buffer with zinc prices currently around the US50 cents/lb mark.

The implications of all this from a broader perspective are also important. The net impact of the mine schedule optimisation and cost review process is that the Angas project is forecast to provide more than sufficient cash flow to service all debt requirements during 2009, even at conservative commodity prices.

Looking down the track, significant surplus cash flows are forecast for beyond 2009, which means that the Angas mine provides full leverage to an eventual recovery in lead and zinc prices.

But the flagship project in Terramin's portfolio remains its 65%-owned Tala Hamza project in Algeria. The project is contained within the Oued Amizour property, which is 100%-owned by Western Mediterranean Zinc Spa (WMZ). Terramin in turn has a 65% shareholding in WMZ, with the remaining 35% held by two Algerian government-owned entities.

The project is situated in northern Algeria on the coast of the Mediterranean Sea, 15 km from the deep water port of Bejaia. If you had to choose the ideal location for a zinc project then this would probably be it. The project boasts access to roads, power, water and labour force, and is superbly located close to key European zinc smelters.

The most recent resource estimate (October 2008) at Tala Hamza gave an Indicated Resource of 24.8 million tonnes at 8.3% Pb+Zn, within a global Indicated and Inferred Resource of 58.6 million tonnes at 6.5% Pb+Zn.

In terms of production, a previously completed scoping study showed at the first stage of production that a 2 million tonne per annum (tpa) mine would produce 209,000 tpa of zinc concentrate and 43,000 tpa of lead concentrate. But the study recommended that mining should ramp up to between 4-5 million tpa.

We understand that the Tala Hamza Pre-feasibility Study report is currently being collated, with the final report due to be released this month (March). The company will clearly have no problem selling its Tala Hamza product, with renowned international metals marketing group RBS Sempra having already entered into a contract to market the first 100,000 tonnes of concentrate produced by the mine.

It must be said that at the present time the market is ascribing little or no value to new projects based on the assumption that project financing will be almost impossible to obtain during the ongoing global credit crisis. Encouragingly from Terramin's perspective however, debt financing for the project is not required until 2010, when it is likely that the current extraordinarily tight credit conditions will have subsided.

And Terramin reports very positive hearings from potential financiers in the Middle East and North Africa, demonstrating that if a project is good enough it will attract funding.

Returning once again to the outlook for zinc fundamentals, it is worth considering the fate of projects that were slated for production and which expected to contribute to zinc production in 2009 and onwards. We have borrowed from studies conducted by Terramin's commercial team, which has reviewed 12 projects tabled by the International Lead and Zinc Study Group in May 2008 (refer to attached table).

Possible Zinc Mine Openings 2009 Onwards

Mine	Annual Capacity	Comments by Terramin
*Oued-Amizour, Algeria	120,000t	FS to be completed in 2009, production 2011, second stage expected to be >200,000 tonnes.
Dugald River, Australia	200,000t	Project suspended – complex metallurgy
Lady Loretta, Australia	125,000t	FS due late 2008, JV partner recently declared bankrupt. High capital
Howards Pass, Canada	280,000t	Undergoing PFS – environmental difficulties.
Izok Lake, Canada	150,000t	Project suspended
Dairi, Indonesia	120,000t	FS complete – still awaiting approvals
Mehdiabad, Iran	400,000t	High capital (USD 1.2 billion)
*Penasquito, Mexico	190,000t	In production late 2009 on silver credits
*San Gregorio, Peru	105,000t	Expected to proceed on silver credits
Gamsberg, South Africa	300,000t	FS completed 2000. Subject to 18 month optimisation study. Difficult metallurgy.

ILZSG (May 2008): Comments are Terramin's, (P)FS = (Pre-) Feasibility study.

Only three of these projects have a cost profile low enough to be successful in the current zinc environment, which it is estimated will lead to a 1.5 million tonne shortfall in zinc concentrates from previous estimates. Not only that, but there have been a large number of closures of higher-cost operations, many of which will not reopen even when prices recover.

As we have stated for a range of other commodities, tomorrow's supply is being put at risk by today's price collapse. There is general agreement that there is a looming shortfall in zinc supply over the next decade, with demand from developing economies slowing for a period but then growing strongly again. The present credit-induced crisis will only make things worse.

This makes the company's Tala Hamza mine one of only a handful of serious new zinc mines on the development horizon, at a time when many mines are in decline. All going well, Tala Hamza will begin production during 2011 into what is likely to be an undersupplied market.

So despite poor current sentiment with respect to zinc, our positive view on Terramin as an outstanding growth story remains unchanged. Whilst more patience is required, most of its zinc sector peers lack the quality project pipeline that it possesses. There is clearly a window of opportunity emerging that the company is well placed to exploit.

Importantly too, the company has low debt levels, no provisional pricing exposure, no refinancing requirements and has deferred its principal repayments until later years.

Accordingly, Terramin Resources will remain firmly held within the Fat Prophets Mining & Resources Portfolio.

Snapshot TZN

Terramin Australia

Terramin is an emerging base metal producer through the development of its three lead and zinc projects. Its advanced projects total more than 58 million tonnes of resources that contain nearly 4 million tonnes of lead and zinc. All of its projects are distinguished by high grades in proximity to quality infrastructure such as ports, roads, water and power. Its projects in Australia and Algeria are on track to produce more than 300,000 tonnes of zinc and lead metal in concentrate annually. The first, Angas, in South Australia commend production in late 2008 and ramped up to full production in February 2009, whilst the much larger Tala Hamza project in Algeria will produce ten times as much metal beginning in 2011.

Market Capitalisation	**A$44m**