**TERRAMIN AUSTRALIA LIMITED** *ABN 67 062 576 238*

# APPENDIX 4E STATEMENT

## PRELIMINARY FINAL REPORT

*For the year ended 31 December 2009*
*(previous corresponding period is the year ended 31 December 2008)*

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | **2009 $'000** | 2008 $'000 | Change % |
|---|---|---|---|
| Revenue from ordinary activities | **41,054** | 9,723 | 322.2 |
| Loss after tax from ordinary activities | **(8,995)** | (19,405) | 53.6 |
| Loss after tax attributable to equity hoders of the Company | **(8,995)** | (19,405) | 53.6 |

## DIVIDENDS/DISTRIBUTIONS

| | Amount per security | Franked amount per security |
|---|---|---|
| **2009 final dividend** | **Nil** | **Nil** |
| 2008 final dividend | Nil | Nil |

No interim dividend was paid for the year ending 31 December 2009 and no final dividend has been proposed for the year ending 31 December 2009.

## NET TANGIBLE ASSETS PER SHARE

| | **2009 $/share** | 2008 $/share |
|---|---|---|
| Net tangible assets per share | **0.52** | 0.56 |

## INTERESTS IN JOINT VENTURES

| | | | % Holding | |
|---|---|---|---|---|
| Joint Venture | Location | Principal activity | **2009** | 2008 |
| Menninnie Dam | South Australia | Base metals exploration | **24** | 24 |
| Oued Amizour | Algeria | Base metals exploration and development | **65** | 65 |

### *Explanation of revenue*

Revenue from ordinary activities for the financial year ended 31 December 2009 of $41.1 million was 322.2% higher than revenue recorded in the prior financial year. This increase was primarily a result of the first full year of production for the year ended 31 December 2009 versus only 5 months of production for the prior financial year. Higher commodity prices, particularly lead, also contributed to increased revenue.

Please refer to the attached Annual Financial Report for the year ended 31 December 2009 for further information.

### *Audit Report*

The accounts upon which this Appendix 4E is based have been audited and the Independent Audit Report to Members of Terramin Australia Limited is included in the attached Annual Financial Report.

**TERRAMIN** AUSTRALIA LIMITED

# 2009

## FINANCIAL STATEMENTS

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# Directors' Report *for the year ended 31 December 2009*

Your Directors submit their report on Terramin Australia Limited (the Company or Terramin) and on the consolidated entity, being the Company and its controlled entities (the Group), for the financial year ended 31 December 2009 and auditors' report thereon.

## DIRECTORS

The names of the Directors in office at any time during or since the end of the year are listed below.

**Dr Kevin C Moriarty** BSc(Hons), PhD
*Appointed 1 September 2000*

Dr Moriarty is a professional geologist and company director whose career has included involvement in geophysical and geological projects in both the petroleum and minerals sectors. Both his early and later career has focussed on base and precious metal exploration and industrial mineral projects in many countries. Dr Moriarty is the Chairman of the Board and a director of Western Mediterranean Zinc Spa, the company which owns and operates the Oued Amizour Zinc Project in Algeria.

**Mr Michael H Kennedy** BComm (Economics)
*Appointed 15 June 2005*

Mr Kennedy has enjoyed a 35 year career in the mining industry and has held a number of senior marketing and logistics roles with CRA; managed raw material sales from the Broken Hill, Cobar and Woodlawn mines; managed raw material supply into the Port Pirie lead smelter, Budel zinc smelter (Netherlands) and the Avonmouth (UK) and Cockle Creek (Newcastle) zinc/lead smelters. He was the resident director of the Korea Zinc group of companies in Australia from 1991 until early 2005. Mr Kennedy is Chair of the Company's Risk & Compliance Committee and a member of the Audit and Nominations & Remuneration Committees.

**Mr Steven AJ Bonett** BCom, LLB (Hons)
*Appointed 15 June 2005*

Mr Bonett is a corporate lawyer and company director, holding degrees in Commerce and Law. He is a former partner of Finlaysons Lawyers and in that role led several major transactions in Australia and overseas. He is currently a consultant to Adelaide commercial law firm, Kelly & Co. Lawyers and a director of numerous companies in the Precision Group, a national property, finance and investment group. He is recognised as an expert in the field of corporate and commercial law, mergers and acquisitions and corporate governance.

He has also served on the Boards of not for profit organisations, including most recently The Queen Elizabeth Hospital Research Foundation. Mr Bonett is Chair of the Company's Nominations & Remuneration Committee and a member of the Audit Committee.

**Mr Peter Zachert** BBus, MGeoscience, MCom, FCA, FAIM
*Appointed 5 June 2009*

Mr Zachert is a Chartered Accountant and company director. His executive background is primarily in resources and diversified industrials in Australia and overseas, most recently as Chief Financial Officer of Elders Limited. Previous positions held by Mr Zachert include Director and CFO of Cyprus Australia Coal Company, CFO of Delta Gold Limited and senior roles in Prodeco SA and Exxon Coal and Mineral Company Limited. Mr Zachert has been a Director of ASX listed Agricultural Land Trust Limited since July 2007, and has held the position of Chairman of its Board since September 2009. Mr Zachert is also a director of a number of private companies. Mr Zachert is Chair of the Company's Audit Committee and a member of the Risk & Compliance Committee.

**Mr Robert W Jones** B.App. Sc., Dip. Prim. Met.
*Appointed 5 June 2009*

Mr Jones is a metallurgist with over 35 years of experience in the zinc-lead and copper resources sector in both mining and refining. He has overseen the construction, commissioning and operation of mining and mineral processing operations in both Australia and the US. Mr Jones spent a number of years as President of US Operations for Pasminco Limited, most notably responsible for the Tennessee zinc mining and smelting operations, and as GM of the company's Port Pirie lead smelter. Throughout his career he has been actively involved in the zinc industry, including executive positions with the International Lead Zinc Research Organization and the American Zinc Association. Mr Jones is a member of the Company's Tala Hamza Risk Assessment and Risk & Compliance Committees.

**Mr Robert (Bryan) Davis** BSc (Tech), FAIMM, MAICD
*Appointed 23 July 2009*

Mr Davis is a qualified mining engineer with over 40 years' experience in the mining and resources industry. Mr Davis has held a variety of senior corporate and operational roles during his career, including as Chief Executive Officer and subsequently, as a non-executive director of Newcrest Mining Limited. Mr Davis was formerly Executive Director - Mining at Pasminco Limited, and held senior management positions at CRA Limited.

He currently acts as an independent, non-executive director on the boards of OneSteel Limited (appointed December 2004) and Coal & Allied Limited (appointed September 2000). In addition, Mr Davis was a director of Newcrest Mining Limited from April 1998 to October 2008. Mr Davis is Chair of the Company's Tala Hamza Risk Assessment Committee and a member of the Nominations & Remuneration Committee.

**Mr Xie Yaheng** MSc, Senior Engineer
*Appointed 18 September 2009*

Mr Xie is Vice-President of China Non-ferrous Metals Industry's Foreign Engineering and Co., Ltd (NFC) and Chairman of Guangdong Zhujiang Rare Earth Ltd, a company in which NFC holds a 72% interest. Mr Xie's first degree is in Electrical Engineering and he was a senior electrical engineer at the Design Institute. Mr Xie has further degrees in Finance and Business Administration, and project management experience at zinc and copper mines in Mongolia, Zambia and Vietnam.

**Mr David A Paterson** BAppSc, Grad Dip Bus Admin
*Appointed 19 April 1995 and resigned 4 April 2009*

Mr Paterson was appointed to the Board in April 1995 and resigned in April 2009. Mr Paterson is a geologist and company director, having worked during his early career with Zinc Corporation, Minerals, Mining and Metallurgy, New Guinea Goldfields Ltd and BHP Exploration. He was a Member of the Australian Stock Exchange Limited and enjoyed a 20-plus year career in stockbroking and capital markets. During his tenure as a director of the Company, Mr Paterson served as Chair of the Audit Committee and as a member of the Company's Risk & Compliance Committee.

**Mr James T Hazel** B.Ec
*Appointed 26 April 2007 and resigned 5 June 2009*

Mr Hazel was appointed to the Board in April 2007 and resigned in June 2009. Mr Hazel is a professional company director of over 10 years experience. His executive background is primarily in the finance industry, including periods as managing director of Primelife Corporation Limited and in other senior executive roles in a number of listed and unlisted public companies, most notably as Chief General Manager of Adelaide Bank Limited and as Chairman of Rural Bank Limited. During the 3 years ending on the date of his resignation, Mr Hazel also served as a director of the following listed companies:

- Non-executive Director – ImpediMed Limited (appointed May 2007, listed 24 October 2007); and
- Non-executive Director – Becton Property Group Limited (appointed 4 April 2008).

During his tenure as a director of the Company, Mr Hazel served as Chair of the Audit Committee.

## Joint Company Secretary

**Mrs Kate E McKeough** BA, BCom, LLB (Hons), GDLP
*Appointed 26 April 2007*

Mrs McKeough is a Senior Associate in the corporate and commercial team of Adelaide law firm Kelly & Co. Lawyers. Mrs McKeough practices in the areas of companies and securities law, fundraising, mergers and acquisitions and general commercial law. In addition to her position as Company Secretary, Mrs McKeough held the position of the Company's in-house legal counsel until September 2009 and in that capacity advised the Company on a range of matters including capital raisings, joint ventures and a variety of general commercial issues.

**Mr Mark J Terry** BAcc, CPA
*Appointed 18 September 2009*

Mr Terry is an accountant with more than 15 years' experience in the mineral exploration and mining industry. He previously held a series of diverse senior finance positions with Normandy Mining Limited, Newmont and at Xstrata Zinc where he was Finance and Commercial Manager for Australian operations. He has broad experience in corporate treasury, mergers and acquisitions, resource project evaluation, accounting, tax and general management roles.

## MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2009, and the number of meetings attended by each Director were:

| | Directors' Meetings | | Audit Committee | | Nominations & Remuneration Committee | | Risk & Compliance Committee | | Tala Hamza Risk Assessment Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| KC Moriarty | 10 | 10 | - | - | - | - | - | - | - | - |
| MH Kennedy | 10 | 10 | 4 | 4 | 4 | 4 | 4 | 4 | - | - |
| SA Bonett | 10 | 10 | 2 | 2 | 4 | 4 | 2 | 1 | - | - |
| P Zachert | 5 | 5 | 3 | 3 | - | - | 2 | 2 | - | - |
| RW Jones [1] | 4 | 3 | - | - | - | - | 2 | 2 | 3 | 2 |
| RB Davis [1] | 5 | 4 | - | - | 3 | 3 | - | - | 3 | 3 |
| Y Xie | 3 | 2 | - | - | - | - | - | - | - | - |
| DA Paterson | 3 | 3 | 1 | 1 | - | - | 1 | 1 | - | - |
| JT Hazel | 4 | 4 | 1 | 1 | - | - | - | - | - | - |

1 Note the Directors were not able to attend a Board meeting called at short notice due to absence overseas.

### Directors' interests

The Directors of the Company had the following direct or indirect interests in the equity of the Company as at the date of this report:

| | Fully paid ordinary shares | Options | Options exercise price | Options expiry date |
|---|---|---|---|---|
| KC Moriarty | 9,026,313 | 500,000 | $4.11 | 04-May-11 |
| | - | 500,000 | $4.93 | 04-May-11 |
| MH Kennedy | 300,000 | 300,000 | $2.76 | 08-May-10 |
| SA Bonett | 250,000 | 250,000 | $4.11 | 04-May-11 |
| P Zachert | - | - | - | - |
| RW Jones | 190,000 | 150,000 | $1.97 | 22-Feb-12 |
| RB Davis | 31,470 | - | - | - |
| Y Xie | - | - | - | - |
| Total | 9,797,783 | 1,700,000 | | |

## PRINCIPAL ACTIVITIES

There were no significant changes in the nature of the Group's principal activities during the reporting period, which continue to focus on the mining, development of and exploration for base metals (in particular zinc and lead) and other economic mineral deposits.

## OPERATING RESULTS

The consolidated loss of the Group after providing for income tax and eliminating non-controlling interests amounted to $9.0 million for the year to 31 December 2009 which compared to a loss of $19.4 million for the previous year to 31 December 2008. Major contributors to the result included non-cash charges for depreciation and amortisation of $15.0 million, partially offset by non-cash credits relating to the mark to market on USD convertible notes ($6.9 million). Operating revenues and expenses for the reporting period were significantly higher than in 2008 as a result of the first full year of operations at the Angas Zinc Mine (2008: 5.5 months). The operating profit for the Angas Zinc Mine was $9.5 million before depreciation and amortisation charges of $15.0 million.

Project expenditure on the Angas Zinc Mine, Oued Amizour Zinc Project, Menninnie Zinc Project and Fleurieu regional exploration totalled $15.8 million which includes mine development and construction, purchases of property, plant and equipment and exploration and evaluation expenditure. Of this expenditure, $9.4 million represents exploration and evaluation expenditure during the period on the Group's tenements.

During the period the Company raised $33.04 million from the issue of 46,369,684 new shares. A total of 27,038,462 shares were issued at $0.65 per share and a further 19,331,222 shares were issued at $0.80 per share. The Company also raised a further US$10 million from the issue of 10 million unlisted, unsecured redeemable convertible notes, each having a face value of US$1.00. Further details of the terms on which these notes were issued can be found at note 16 to the financial statements.

## DIVIDENDS PAID OR RECOMMENDED

No dividends were paid or declared during the period and no recommendation was made to pay a dividend.

## REVIEW OF OPERATIONS

During the year the Company focused on optimising the operation of its Angas Zinc Mine in South Australia and on the feasibility studies of its large Oued Amizour Zinc Project in Algeria as well as examining new opportunities in Australia and overseas. Highlights for each of the Group's major projects are reported below.

### Angas Zinc Mine *(Terramin 100%)*

The Angas Zinc Mine achieved steady state production during 2009 and set a number of production records in the final quarter. Full year ore production of 357,219 tonnes and mill throughput of 342,953 tonnes exceeded budget forecasts and resulted in higher than expected concentrate and metal sales for the year.

Following a safety incident in the third quarter the Company halted underground development for one week and introduced a retraining programme and review of procedures for the underground workforce. The programme was successful with a good safety outcome in the final quarter of the year. A number of ongoing programmes have been designed to ensure the continuous improvement of safety performance at the Mine site.

The 2009 Probable Reserve of 2.15Mt at 7.55% Zn and 2.91% Pb for the Angas Zinc Mine (as at 30 April 2009) was announced late in July. Additional drilling, improved understanding of geological controls, a change in the cut off grade and depletion from mining led to an 11% reduction in the Probable Reserve. Despite the reduction in tonnes there was only a small reduction (4%) in contained zinc and lead as the estimated grades increased. A programme of underground drilling that took place in the second half of the year will be incorporated into the 2010 reserve and resource estimate.

Mine development continued with the decline extending a further 433 metres to 997 metres from the portal at the period end. Total development for the year reached 2,487 metres with drives being established on the 200 level late in the fourth quarter. Development drives are established on all levels above the 200 level with stopes established in the Rankine and Garwood Shoots. Concentrate production for the year totalled 45,583 tonnes of zinc concentrate and 17,735 tonnes of lead-copper-precious metals concentrate. New production records were established in the fourth quarter for both concentrate products. Payable metal production for the year was 19,456 tonnes of zinc and 8,902 tonnes of lead.

C1 cash costs (direct cash costs net of by-product credits) averaged US 33 cents/lb for the period with the average trending down over the course of the year. Cash costs in the first quarter were US 76 cents/lb compared to US 31 cents/lb in the final quarter. The reduction in costs was due to improved performance of the mine and mill and higher by-product credits associated with an increased lead price. In addition, base treatment charges for both zinc and lead concentrates were lower than in the previous year as smelters around the world actively bid for feed for their plants.

### Oued Amizour Zinc Project *(Terramin 65%)*

The Oued Amizour Zinc Project is 100% owned by Western Mediterranean Zinc Spa (WMZ). Terramin has a 65% shareholding in WMZ. The remaining 35% are held by two Algerian government owned companies: Enterprise National des Produits Miniers Non-Ferreux et des Substances Utiles Spa (ENOF) (32.5%) and Office National de Recherche Géologique et Minière (ORGM) (2.5%).

Significant progress was made on the mining assessment of the Tala Hamza deposit, part of the large Oued Amizour Zinc Project. The pre-feasibility assessment report issued in the first quarter confirmed that the Tala Hamza deposit could be successfully developed as a technically and financially viable long-term mine. The pre-feasibility study estimated that the cost of developing a sub level cave (SLC) mine would be US$266 million based on an initial Probable Reserve of 24.1Mt at 5.89% zinc and 1.67% lead. The study also assessed a block cave mine concluding that development would cost US$285 million, however mine operating costs would be 40% lower than a SLC mine. The report recommended the possibility of using the lower cost block caving method rather than the previously preferred SLC method and indicated that further work was required in the feasibility study to verify the viability of the method.

Following completion of the pre-feasibility study, work continued on the feasibility study, Environmental Impact Statement (EIS) and Environmental Management Plan (EMP) that are required to be submitted to the relevant Algerian government departments for the purpose of a Mining Lease Application (MLA). Two drill rigs continued to drill geotechnical and hydrological holes for the Project with the programme nearly complete by the end of the year. The site for the portal, process plant and Tailings Storage Facility (TSF) were chosen and followed up with drilling and mapping.

Work completed over the year has confirmed block caving as the preferred mining method and led to a significant upgrade in total Measured, Indicated and Inferred Resources for the Project. The total Resource in all categories (as at 15 November 2009) is 68.6Mt at 4.6% zinc and 1.1% lead comprising a Measured Resource of 30.6Mt at 5.74% zinc and 1.59% lead, an Indicated Resource of 20.5Mt at 3.57% zinc and 0.79% lead and an Inferred Resource of 17.5Mt at 3.7% zinc and 0.6% lead.

Terramin now expects its Algerian operating company, Western Mediterranean Zinc Spa, will lodge a MLA in the first quarter of 2010.

A total of $9.9 million was spent by Terramin on the pre-feasibility and feasibility studies for the Project during 2009.

## Menninnie Zinc Project

### *(a) Menninnie Dam Exploration Joint Venture (Terramin 24%)*

The Project remained on care and maintenance for the duration of the year with Terramin waiting for notification from the joint venture Manager, Minerals and Metals Group, on the progress and outcome of the sale process for its interest in the Project announced in October 2008. The only significant progress was agreement of the terms of the Native Title Mining Agreement (NTMA) with the local native title claimant group. The terms of the new agreement have been expanded to incorporate the Nonning tenement in addition to the Menninnie Dam tenement. The revised agreement has been executed and is expected to be registered and become enforceable during the first quarter of 2010.

### *(b) Nonning Joint Venture (Terramin earn in of up to 70%)*

In June 2008, the Company, by way of its wholly owned subsidiary Menninnie Metals Pty Ltd (MMPL), signed a Heads of Agreement with Minotaur Operations Pty Ltd for the formation of a joint venture to explore the Nonning tenement (EL 3535), situated on the northern Eyre Peninsula of South Australia and adjacent to the Menninnie Dam tenement. Pursuant to the Heads of Agreement, MMPL agreed to spend up to $3,000,000 over 3 years to earn up to a 70% interest in the joint venture.

Activity in 2009 was limited to exploration planning and discussions with relevant native title claimant group about the NTMA for the Project area. A nominal amount was spent on the Project during the year.

### *(c) Kolendo Project area (Terramin 100%)*

MMPL was granted the Kolendo Licence (EL 4285) in July 2009. The tenement shares a boundary with the Nonning tenement and consolidates a large region of highly prospective exploration ground in the northern Eyre Peninsula. The annual exploration commitment for the tenement is $50,000. Work since the grant of the tenement consisted of a review and interpretation of the available data in the Project area.

## Corporate

During the year, the Company attracted key investors who subscribed for shares despite the adverse equity market conditions. Transaminvest S.A., a subsidiary of Transamine S.A. (a European-based global non-ferrous commodities trading house), subscribed for 11,538,462 shares at $0.65 per share in March 2009 and US$10 million of convertible notes in September 2009. In addition, NFC subscribed for 15,500,000 shares for $0.65 per share in July 2009. Both issues were completed at a premium of approximately 50% to the prevailing market price of the Company's shares at the time of issue, reflecting investor confidence in the value of the Company's asset portfolio.

In November 2009, the Company placed 19,331,222 shares to existing and new institutional and sophisticated investors at $0.80 per share to raise $15,464,978.

The Company took advantage of the terms of its various convertible note facilities to issue two tranches of shares (1,318,388 in total) in satisfaction of interest payment obligations in March and June 2009.

Transaminvest S.A. has an obligation to subscribe for a further US$7.5 million in convertible notes under the same terms as the notes issued in September 2009. In addition, Transaminvest S.A. will subscribe for US$2.5 million in shares issued at the volume weighted average price of the Company's shares over the five trading days immediately preceding the due date for payment. The issue of the convertible notes and shares will take place following a "decision to mine" in respect of the Tala Hamza deposit.

## Business development activities

Throughout 2009, the Company continued to identify, assess and, where appropriate, pursue the acquisition of interests in advanced zinc projects with a close proximity to infrastructure.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No significant change in the state of affairs of the Group occurred during the financial year, other than as already referred to elsewhere in this report.

## SUBSEQUENT EVENTS

During the period, the Company announced the appointment of Mr Greg Cochran to the role of Chief Executive Officer, which he commenced on 18 January 2010. Following his commencement, primary responsibility for the day-to-day operations of the Company has been formally delegated by the Board to Mr Cochran. This delegation is subject to transitional arrangements pursuant to which Dr Moriarty will progressively withdraw from his executive role within the Company to take on a purely non-executive Chairman's role.

On 21 January 2010, a total of 2,200,000 unlisted options were issued to various Company employees (including Mr Cochran, pursuant to the terms of his employment contract) as follows:

- 500,000 unlisted options with an exercise price of $1.25 and an expiry date of 20 January 2015;
- 1,000,000 unlisted options with an exercise price of $1.17 and an expiry date of 20 January 2015;
- 600,000 unlisted options with an exercise price of $1.12 and an expiry date of 20 January 2013; and
- 100,000 unlisted options with an exercise price of $1.08 and an expiry date of 20 January 2013.

In the Directors' opinion, no other events or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Company or the Group, the results of those operations or the state of affairs of the Group in future financial years that have not been otherwise disclosed in this report.

## FUTURE DEVELOPMENTS

The Company intends to continue to undertake appropriate exploration and evaluation expenditure thereby enabling it to maintain good title to all its prospective mineral properties until proper decisions can be made to successfully develop and exploit, sell or abandon such properties. New projects will continue to be sought and evaluated. The Directors believe, on reasonable grounds, that the disclosure of any further information on the Group's future operations is likely to result in unreasonable prejudice to the Company or Group.

## ENVIRONMENTAL MANAGEMENT

The Group is subject to significant environmental regulation under Commonwealth, South Australian and Algerian legislation in relation to its exploration, development and mining activities. Exploration Licences and Mining Leases are issued subject to various obligations as to environmental monitoring and rehabilitation, and ongoing compliance with all relevant legislative obligations. The Group's Directors, employees and consultants are committed to achieving a high standard of environmental performance and in this regard the Board has an established and active Risk & Compliance Committee.

In respect of the Angas Zinc Mine, the Department of Primary Industries and Resources SA (PIRSA) has advised the Company that the level of water in the tailings storage facility is above compliance levels as detailed in the Mine's Mining and Rehabilitation Plan. The Company is working with PIRSA and the Environmental Protection Authority to resolve this issue, which it does not expect to have a material adverse impact on its future operations.

Insofar as the Directors are aware, there have been no other material breaches or other material instances of non-compliance, nor any recorded known areas of outstanding non-compliance, with any applicable environmental legislation or other regulations.

## CORPORATE GOVERNANCE

The Board acknowledges and endorses the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations – 2nd Edition" (ASX Recommendations). The Board continually monitors and reviews its existing and required policies, charters and procedures with a view to ensuring its compliance with the ASX Recommendations to the extent deemed appropriate for the size of the Company and its development status.

Good corporate governance practices are also supported by the ongoing activities of the following Board Committees:

- Audit Committee
- Nominations & Remuneration Committee
- Risk & Compliance Committee
- Tala Hamza Risk Assessment Committee

## SHARE CAPITAL

### (a) Ordinary shares

As at 31 December 2009 and as at the date of this report, there were 158,388,667 fully paid ordinary shares in the capital of the Company on issue.

### (b) Unlisted options outstanding at the date of this report

As at 31 December 2009 there were 13,686,630 unlisted options over fully paid ordinary shares in the capital of the Company on issue. As at the date of this report, there are 15,886,630 unlisted options over fully paid ordinary shares in the capital of the Company on issue.

| Expiry date | Exercise price $ | Number of options on issue |
|---|---|---|
| 08-May-10 | 2.76 | 300,000 |
| 16-Jun-10 | 0.52 | 185,000 |
| 16-Feb-11 | 0.60 | 130,000 |
| 03-May-11 | 1.44 | 25,000 |
| 04-May-11 | 4.11 | 750,000 |
| 04-May-11 | 4.93 | 500,000 |
| 07-Jun-11 | 1.26 | 467,000 |
| 07-Aug-11 | 1.42 | 280,000 |
| 22-Feb-12 | 1.97 | 725,000 |
| 08-May-12 | 2.43 | 1,075,000 |
| 21-May-12 | 2.16 | 4,629,630 |
| 17-Jun-12 | 3.32 | 150,000 |
| 09-Sep-12 | 2.92 | 100,000 |
| 11-Nov-12 | 3.74 | 50,000 |
| 19-Dec-12 | 3.55 | 325,000 |
| 23-Jan-13 | 2.66 | 275,000 |
| 15-Mar-13 | 2.80 | 3,125,000 |
| 20-Jul-13 | 2.45 | 575,000 |
| 07-Sep-13 | 2.12 | 20,000 |
| 20-Jan-13 | 1.08 | 100,000 |
| 20-Jan-13 | 1.12 | 600,000 |
| 20-Jan-15 | 1.17 | 1,000,000 |
| 20-Jan-15 | 1.25 | 500,000 |
| **TOTAL** | | **15,886,630** |

No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of the Company or any other body corporate.

### (c) Unlisted options exercised during the year

The following unlisted options over fully paid ordinary shares in the capital of the Company were exercised during the period:

| Exercise dates | Number exercised | Exercise price $ | Funds received $ |
|---|---|---|---|
| 25-Sep-09 | 75,000 | 0.60 | 45,000 |
| **TOTAL** | **75,000** | | **45,000** |

Upon exercise, each option entitled the holder to be issued with one fully paid ordinary share in the capital of the Company.

### (d) Unlisted options exercised since 31 December 2009

No unlisted options over fully paid shares in the Company have been exercised since 31 December 2009.

## REMUNERATION REPORT - AUDITED

Directors and other key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company. The information regarding remuneration and entitlements of the Company's Board, key management personnel and relevant Group executives required for the purposes of section 300A of the *Corporations Act 2001* is provided below.

The following persons were Directors of the Company during the financial year and up until the date of this report:

**(i) Executive Directors**

Dr KC Moriarty — *Executive Chairman*

**(ii) Non-Executive Directors**

Mr MH Kennedy — *(Independent)*
Mr SA Bonett — *(Independent)*
Mr P Zachert — *(Independent) (appointed 5 June 2009)*
Mr RW Jones — *(Independent) (appointed 5 June 2009)*
Mr RB Davis — *(Independent) (appointed 23 July 2009)*
Mr Y Xie — *(Non-Independent) (appointed 18 September 2009)*
Mr DA Paterson — *(Non-Independent) (resigned 4 April 2009)*
Mr JT Hazel — *(Independent) (resigned 5 June 2009)*

The following persons were both the key management personnel of the Group, and the five relevant Group executives of the Group who received the highest remuneration during the financial year (collectively Specified Executives). Key management personnel are those persons who make or participate in making decisions affecting the whole or a substantial part of the business of the Company or its financial standing.

**(iii) Specified Executives**

| | |
|---|---|
| Mr MS Janes | *Chief Financial Officer* |
| Mr RP Singer | *Chief Geologist* |
| Mr AC Robertson | *General Manager Operations* |
| Mr J Burgess | *General Manager Tala Hamza Project* |
| Mr JP Wilhelm | *Vice President North Africa* |

## (a) Remuneration report and practices

This report outlines the remuneration arrangements for Directors and Specified Executives of the Company. It is recognised that the performance of the Company depends on the quality and skills of its Directors and executives. The Board is mindful of the need to attract, motivate and retain highly skilled Directors and executives. To this end, the Company strives, by way of the Board and its Nominations & Remuneration Committee, to devise and offer remuneration packages that are competitive, transparent and justifiable to shareholders.

The Company has continued throughout the period to review and monitor its remuneration practices at all levels, with a view to ensuring, to the greatest extent possible, consistency with market expectations and the practices of similarly sized companies. These objectives are achieved through the development and implementation of policies and practices which support the following key principles underlying the Company's remuneration policy:

- to provide competitive remuneration to attract high calibre people;
- to actively consult with the established Nominations & Remuneration Committee in determining remuneration policies and practices;
- to have reference to independent advice and confirmation where appropriate;
- to establish appropriately demanding hurdles in relation to performance based remuneration, where appropriate; and
- where appropriate, to link executive Director and senior management reward to the creation of shareholder value and/ or Company milestones and production budgets.

### *NOMINATIONS AND REMUNERATION COMMITTEE*

The current members of the Committee are Mr Bonett (Chair), Mr Kennedy and Mr Davis. The Company Secretary also attends meetings as required. The objectives of the Committee are to assist the Board to:

- ensure it is of an effective composition, size and commitment to adequately discharge its responsibilities and duties; and
- independently ensure that the Company adopts and complies with remuneration policies that:
  - attract, retain and motivate high calibre executives and directors so as to encourage enhanced performance by the Company;
  - are consistent with the human resource needs of the Company;
  - motivate Directors and management to pursue the long-term growth and success of the Company within an appropriate control framework and ensure that shareholder and employee interests are aligned;
  - demonstrate a clear relationship between key executive performance and remuneration; and
  - are consistent with current governance and legal developments.

### *REMUNERATION AND INCENTIVE STRUCTURES*

### *Executives*

#### *Fixed remuneration*

The fixed portion of executive remuneration packages comprises a base salary, statutory superannuation payment and FBT charges related to employee benefits, such as car parking. Executive performance and remuneration packages are reviewed at least annually by the Board or its nominee (historically, the Executive Chairman).

#### *Performance based remuneration and entitlements*

The Board will from time to time approve the award of bonuses including cash and/or equity securities, designed to reward or incentivise executives, contractors and staff on such terms and conditions determined by the Board (in consultation with the Executive Chairman or senior management) to be appropriate at the time of payment or issue. Often, the grant or vesting of options or other bonuses will be linked to the achievement of specific Company objectives (such as operational milestones) with a direct link to the creation of shareholder value.

## Directors

### Remuneration and incentives

The maximum aggregate fee payable to non-executive Directors is subject to approval by shareholders at general meeting (the current limit is $350,000). All securities issued to Directors and related parties must be approved by shareholders at general meeting. Non-executive Directors are either paid a base fee plus superannuation or remunerated via contractual arrangements approved by the Board and negotiated in consultation with the Nominations & Remuneration Committee. Company policy supports the issue, where appropriate, of equity securities to Directors (whether executive or non-executive) to help ensure Directors' interests are aligned with those of shareholders.

### Retirement or other post employment benefits

The Company has not provided benefits to its Directors upon their retirement, other than by making the statutory superannuation guarantee contributions as required by law.

## (b) Parent entity Directors' remuneration and entitlements

During the period, the following cash and non-cash payments were made to the Directors:

| 2009 | Short term | | Post employment | | Share-based payments | | Total |
|---|---|---|---|---|---|---|---|
| | Salary & fees | Contract payments | Superannuation benefits | Termination benefits | Value of options | % | |
| KC Moriarty | - | 511,060 | - | - | - | - | **511,060** |
| MH Kennedy | 54,404 | - | 4,896 | - | - | - | **59,300** |
| SA Bonett | 49,817 | - | 4,484 | - | - | - | **54,301** |
| P Zachert | - | 22,750 | - | - | - | - | **22,750** |
| RW Jones | - | 21,000 | - | - | - | - | **21,000** |
| RB Davis | 30,415 | - | 2,737 | - | - | - | **33,152** |
| Y Xie | - | 1,500 | - | - | - | - | **1,500** |
| DA Paterson | - | 18,047 | - | - | - | - | **18,047** |
| JT Hazel | 21,750 | - | 1,958 | - | - | - | **23,708** |
| **TOTAL** | **156,386** | **574,357** | **14,075** | **-** | **-** | **-** | **744,818** |

| 2008 | Short term | | Post employment | | Share-based payments | | Total |
|---|---|---|---|---|---|---|---|
| | Salary & fees | Contract payments | Superannuation benefits | Termination benefits | Value of options | % | |
| KC Moriarty | - | 402,415 | - | - | 643,204 | 62 | **1,045,619** |
| MH Kennedy | 40,000 | - | 3,600 | - | - | - | **43,600** |
| SA Bonett | 40,000 | - | 3,600 | - | 185,133 | 81 | **228,733** |
| DA Paterson | - | 81,422 | - | - | - | - | **81,422** |
| JT Hazel | 50,000 | - | 4,500 | - | - | - | **54,500** |
| **TOTAL** | **130,000** | **483,837** | **11,700** | **-** | **828,337** | **-** | **1,453,874** |

## (c) Specified Executive remuneration

Details of the remuneration of the Specified Executives s300A(c)(iii)) named above appears below:

| 2009 | Short Term | | Post Employment | | Share-based payments | | Total |
|---|---|---|---|---|---|---|---|
| | Salary & fees | Contract payments | Superannuation benefits | Termination benefits | Value of options | % | |
| **2009** | | | | | | | |
| MS Janes | 215,596 | - | 19,404 | - | - | - | **235,000** |
| RP Singer | 235,000 | - | 21,150 | - | - | - | **256,150** |
| AC Robertson | 200,009 | - | 18,001 | - | - | - | **218,010** |
| J Burgess | - | 274,065 | - | - | - | - | **274,065** |
| JP Wilhelm | - | 252,670 | - | - | - | - | **252,670** |
| **TOTAL** | **650,605** | **526,735** | **58,555** | **-** | **-** | **-** | **1,235,895** |
| **2008** | | | | | | | |
| MS Janes | 218,272 | - | 19,644 | - | 45,442 | 16 | **283,358** |
| RP Singer | 238,888 | - | 21,500 | - | - | - | **260,388** |
| AC Robertson | 200,009 | - | 18,001 | - | - | - | **218,010** |
| J Burgess | - | 219,300 | - | - | - | - | **219,300** |
| JP Wilhelm | - | 240,337 | - | - | 123,510 | 34 | **363,847** |
| **TOTAL** | **657,169** | **459,637** | **59,145** | **-** | **168,952** | **-** | **1,344,903** |

All Directors and Specified Executives are subject to the Company's Share Trading Policy (accessible via the Company's website at www.terramin.com.au) with respect to limiting their exposure to risk in relation to the Company's securities, including securities issued as an element of executive remuneration. The Company's Share Trading Policy requires all officers, employees and key consultants to the Company to notify the Executive Chairman and Company Secretary of any intention to deal in the Company's securities, whether by sale or purchase of shares on market, or the exercise of options. The notified dealing is subject to the approval of the Executive Chairman. The Board considers that, in light of the size and structure of the Company and the absence of a secondary market for the Company's securities, this policy provides adequate protection against unauthorised dealings by Directors and Specified Executives, in particular in relation to risk mitigation.

No bonuses were paid to Specified Executives during the year.

## (d) Options issued during the year

There were no options over unissued shares in the capital of the Company issued to Directors or Specified Executives during the year.

## (e) Shareholdings and options

The relevant interest of each Director and Specified Executive in shares and options over shares in the Company at the end of the period is disclosed below:

| | Shares balance 1/01/2009 | Options balance 1/01/2009 | Shares acquired during year | Options received as incentive | Shares disposed of during year | Options exercised | Options expired | Balance options 31/12/2009 | Balance shares 31/12/2009 |
|---|---|---|---|---|---|---|---|---|---|
| **Parent Entity Directors** | | | | | | | | | |
| KC Moriarty | 9,026,313 | 3,000,000 | - | - | - | - | (2,000,000) | 1,000,000 | 9,026,313 |
| MH Kennedy | 300,000 | 300,000 | - | - | - | - | - | 300,000 | 300,000 |
| SA Bonett | 250,000 | 250,000 | - | - | - | - | - | 250,000 | 250,000 |
| P Zachert | - | - | - | - | - | - | - | - | - |
| RW Jones | 190,000 | 150,000 | - | - | - | - | - | 150,000 | 190,000 |
| RB Davis | 31,470 | - | - | - | - | - | - | - | 31,470 |
| Y Xie | - | - | - | - | - | - | - | - | - |
| DA Paterson | 9,164,302 | 500,000 | - | - | - | - | (500,000) | - [1] | - [1] |
| JT Hazel | 55,000 | 250,000 | - | - | - | - | (250,000) | - [2] | - [2] |
| **Specified Executives** | | | | | | | | | |
| MS Janes | 46,470 | 630,000 | - | - | - | - | - | 630,000 | 46,470 |
| AC Robertson | - | 350,000 | - | - | - | - | - | 350,000 | - |
| RP Singer | - | 350,000 | - | - | - | - | - | 350,000 | - |
| J Burgess | - | 300,000 | - | - | - | - | - | 300,000 | - |
| JP Wilhelm | - | 200,000 | - | - | - | - | - | 200,000 | - |
| **Total** | **19,063,555** [3] | **6,280,000** | **-** | **-** | **-** | **-** | **(2,750,000)** | **3,530,000** | **9,844,253** |

1 DA Paterson resigned on 4 April 2009. His share balance at this date was 9,164,302. As Mr Paterson is no longer a Director of the Company his share holdings as at 31 December 2009 have not been disclosed. During the period, 500,000 options held by Mr Paterson expired.

2 JT Hazel resigned on 5 June 2009. His share balance at this date was 55,000. As Mr Hazel is no longer a Director of the Company, his share holdings as at 31 December have not been disclosed. During the period, 250,000 options held by Mr Hazel expired.

3 The balance of shares held by Directors and Specified Executives as at 31 December 2008 was 18,842,085. The balance of shares held by Directors and Specified Executives as at 1 January 2009 has been amended to reflect the existing shareholdings of RW Jones and RB Davis at their respective appointment dates.

## (f) Contracts and agreements

The Company is operating in an environment where there is significant competition for skilled staff and contractors. To ensure project continuity the Company has employment agreements with each Specified Executive which prescribe termination by either party on the provision of 1 months' notice, or payment in lieu of notice at the Company's election. On termination, Specified Executives are also entitled to receive statutory entitlements of accrued annual and long service leave plus superannuation benefits.

Agreements with Specified Executives that differ from the above are detailed below:

**Dr Kevin Moriarty** *Executive Chairman*

Dr KC Moriarty is engaged by the Company as a consultant to manage day to day activities. Dr Moriarty also serves as Chairman of the Board.

This arrangement has no fixed term and is reviewed annually by the Nominations & Remuneration Committee. Dr Moriarty's hourly rate is $200 plus GST, with consultancy fees payable to Towarnie Geosciences. There are no fixed termination entitlements in respect of this arrangement.

**Mr Gregory Cochran** *Chief Executive Officer*

Mr G Cochran commenced employment on 18 January 2010 as the Company's Chief Executive Officer. The employment agreement has no fixed term and may be terminated by either party upon 6 months notice, or payment in lieu, with an additional 6 months base salary payable by the Company to Mr Cochran in the event of termination as a result of redundancy. Recommendation under the agreement is structured as follows:

- Base salary of $400,000 per annum plus superannuation and other package benefits to be reviewed annually.
- 1,000,000 options to be issued upon commencement of employment pursuant to the terms of the Terramin Australia Limited Employee Option Plan (Options). All Options will vest immediately upon issue but be issued in 2 tranches of 500,000 Options, the first tranche having a three year term and an exercise price set at a 35% premium to the volume weighted average price of the Company's shares on ASX for the 30 days preceding the date of issue ("30 day VWAP"), and the second tranche having a five year term and an exercise price set at a 50% premium to the 30 day VWAP. On 21 January 2010, the first tranche of Options were issued at an exercise price of $1.12 and the second tranche of Options were issued at an exercise price of $1.25.
- Entitlement to annual awards of long term incentives (LTIs) equivalent to up to 100% of his base salary. In the first year of employment, the value of the Options will count towards the total annual LTI award. The vesting of LTI entitlements will be subject to performance based vesting conditions determined by the Board in consultation with the CEO.

**Mr John Burgess** *General Manager Tala Hamza Project*

In February 2007, a consulting company controlled by Mr J Burgess signed an initial agreement to provide his services to the Company as General Manager Angas Zinc Mine. In January 2009, a new contract was signed by Mr Burgess as an agreement to provide his services to the Company as General Manager Tala Hamza Project at a daily rate of $1,000 plus GST. The contract is for a fixed period of 3 years, with an option to renew for a further 2 years at the election of the Company.

The consultancy arrangement between Mr Burgess' company and the Company entitles either party to terminate the agreement upon the giving of 3 months' notice in writing. Apart from outstanding consultancy fees incurred under the arrangement, no entitlements are payable upon termination of this agreement.

Mr Burgess has been appointed General Manager Tala Hamza and will manage the completion of the feasibility studies and development in respect of that deposit.

**Mr Jean-Pierre Wilhelm** *Vice President North Africa*

In January 2008, a consulting company controlled by Mr JP Wilhelm signed an agreement to provide his services to the Company as Vice President North Africa. Consultancy fees are paid at a rate of €12,500 per month, inclusive of GST or any other applicable taxes. The consultancy arrangement is for a fixed term of 5 years.

The consultancy arrangement between Mr Wilhelm's company and the Company entitles either party to terminate the agreement upon the giving of 30 days' notice in writing. Apart from outstanding consultancy fees incurred pursuant to the agreement, no entitlements are payable upon termination of this agreement.

### (g) Indemnification of Directors and Officers

Directors' and Officers' Liability Insurance has been secured to insure the Directors, officers and senior executives of the Group to the extent permitted by the *Corporations Act 2001*. The officers of the Company and the Group covered by the insurance policy include any person acting in the course of duties for the Company or the Group who is or was a Director, Secretary or senior executive. The contract of insurance prohibits the disclosure of the nature of the liability covered and the amount of the premium.

The Group has not otherwise, during or since the end of the period, indemnified or agreed to indemnify an officer or auditor of the Group or any related body corporate against a liability incurred as such an officer or auditor.

## NON-AUDIT SERVICES

Additional services provided during the period by the Company's auditors, KPMG, included taxation advice for the Company and the Group in Australia, Spain and Algeria. Fees paid for these services totalled $30,000 for the period and have been accounted for as administrative expenses. In accordance with advice from Terramin's Audit Committee, the Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Also in accordance with the advice of the Audit Committee, the Directors are satisfied that the nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

## AUDITORS' INDEPENDENCE DECLARATION

The auditors' independence declaration for the year ended 31 December 2009 can be found on page 15 and forms part of the Directors' Report.

## LITIGATION

As at the date of this report, no person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company of all or any part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

## JORC COMPETENT PERSON STATEMENT

The information in this report that relates to Exploration Results, Mineral Resources is based on information compiled by Mr Robert Singer. The information that relates to Ore Reserves is based on information compiled by Mr Andrew Robertson. Both are Members of The Australasian Institute of Mining and Metallurgy. Mr Singer is Chief Geologist and Mr Andrew Robertson is General Manager Operations, both are full time employees of Terramin Australia Limited. Both have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting Exploration Results, Mineral Resources or Ore Reserves'. Mr Singer and Mr Robertson consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

## ROUNDING

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in Adelaide this 25th day of February 2010 in accordance with a resolution of the Board of Directors.

Kevin m. Moriarty

**Kevin C Moriarty**
*Executive Chairman*

**Peter Zachert**
*Director*

# Directors' Declaration

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 18 - 53, and the remuneration disclosures contained in pages 7 - 12 of the Directors' Report, are in accordance with the *Corporations Act 2001*, and:

   (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and

   (b) give a true and fair view of the financial position as at 31 December 2009 and of the performance for the year ended on that date of the Company and the economic entity;

2. the Executive Chairman and Chief Financial Officer have each declared that:

   (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

   (b) the financial statements and notes for the financial year comply with the Accounting Standards;

   (c) the declaration is provided in accordance with section 295A of the *Corporations Act 2001* and is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks; and

   (d) the financial statements and notes for the financial year give a true and fair view.

3. 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.

**Kevin C Moriarty**
*Executive Chairman*
25 February 2010

**Peter Zachert**
*Director*
25 February 2010

# Auditors' Independence Declaration

***Lead 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, in relation to the audit for the financial year ended 31 December 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Derek Meates
*Partner*

Adelaide

25 February 2010

KPMG

**Independent auditor's report to the members of Terramin Australia Limited**

**Report on the financial report**

We have audited the accompanying financial report of Terramin Australia Limited (the Company), which comprises the statements of financial position as at 31 December 2009, and income statements and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 30 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion the financial report of Terramin Australia Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2009. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Terramin Australia Limited for the year ended 31 December 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Derek Meates
*Partner*

Adelaide

25 February 2010

# Income Statements *for the Year Ended 31 December 2009*

| | Note | Consolidated 2009 $'000 | Consolidated 2008 $'000 | Parent 2009 $'000 | Parent 2008 $'000 |
|---|---|---|---|---|---|
| Revenue | 3 | **41,054** | 9,723 | **41,054** | 9,723 |
| Other income | 3 | **281** | 7,876 | **281** | 7,877 |
| Raw materials, consumables and other direct costs | | **(31,917)** | (11,634) | **(31,917)** | (11,634) |
| Change in inventories of finished goods and WIP | | **1,152** | 2,898 | **1,152** | 2,898 |
| Employee expenses | | **(2,148)** | (1,811) | **(2,148)** | (1,810) |
| Depreciation and amortisation | | **(15,041)** | (5,146) | **(15,041)** | (5,143) |
| Exploration and evaluation write down | 13(a) & (b) | **(23)** | (2,509) | **(23)** | (2,349) |
| Impairment of investment in associate | | **-** | (1,243) | **-** | - |
| Provision for diminution of investment in subsidiary | | **-** | - | **-** | (839) |
| Administration expenses | 4 | **(2,998)** | (3,055) | **(2,950)** | (3,299) |
| Share option expense | 18(e) | **(214)** | (1,708) | **(214)** | (1,708) |
| **Loss before net financing income/(costs) and income tax** | | **(9,854)** | (6,609) | **(9,806)** | (6,284) |
| Finance income | 5 | **7,127** | 1,884 | **7,127** | 1,860 |
| Finance costs | 5 | **(6,268)** | (14,680) | **(6,306)** | (14,700) |
| **Net finance income/(cost)** | | **859** | (12,796) | **821** | (12,840) |
| **Loss before income tax** | | **(8,995)** | (19,405) | **(8,985)** | (19,124) |
| Income tax expense | 21 | **-** | - | **-** | - |
| **Loss for the year attributable to equity holders of the Company** | | **(8,995)** | (19,405) | **(8,985)** | (19,124) |

**Earnings per share attributable to the ordinary equity holders of the Company:**

| | Note | Consolidated 2009 | Consolidated 2008 |
|---|---|---|---|
| "Basic earnings/(loss) per share (cents per share)" | 28 | **(6.89)** | (18.66) |
| "Diluted earnings/(loss) per share (cents per share)" | 28 | **(6.89)** | (18.66) |

# Statements of Comprehensive Income *for the Year Ended 31 December 2009*

| | Note | Consolidated 2009 $'000 | Consolidated 2008 $'000 | Parent 2009 $'000 | Parent 2008 $'000 |
|---|---|---|---|---|---|
| Loss for the period | | **(8,995)** | (19,405) | **(8,985)** | (19,124) |
| Other comprehensive income/(loss) | | | | | |
| Foreign currency translation differences for foreign operations | 19 | **(3,968)** | 1,591 | **-** | - |
| Other comprehensive (loss)/income for the period, net of income tax | | **(3,968)** | 1,591 | **-** | - |
| Total loss for the period | | | | | |
| Attributable to equity holders of the Company | | **(12,963)** | (17,814) | **(8,985)** | (19,124) |

The Income Statements and Statements of Comprehensive Income are to be read in conjunction with the notes to the financial statements.

# Statements of Financial Position *for the year ended 31 December 2009*

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | *Note* | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **Assets** | | | | | |
| Other financial assets | *11* | **-** | - | **37,836** | 27,952 |
| Property, plant and equipment | *13(a)* | **89,380** | 98,279 | **88,441** | 96,665 |
| Exploration and evaluation | *13(b)* | **33,642** | 27,162 | **880** | 667 |
| Investments in equity accounted investees | *12* | **1,078** | 1,080 | **-** | - |
| **Total non-current assets** | | **124,100** | 126,521 | **127,157** | 125,284 |
| Inventories | *7* | **4,390** | 3,411 | **4,252** | 3,110 |
| Derivative financial instruments | *10* | **18** | 101 | **18** | 102 |
| Other assets | *9* | **210** | 24 | **222** | 36 |
| Trade and other receivables | *8* | **8,308** | 1,179 | **8,274** | 1,046 |
| Cash and cash equivalents | *6* | **21,904** | 14,499 | **21,347** | 13,979 |
| **Total current assets** | | **34,830** | 19,214 | **34,113** | 18,273 |
| **Total assets** | | **158,930** | 145,735 | **161,270** | 143,557 |
| Equity | | | | | |
| Share capital | *18* | **113,667** | 80,675 | **113,667** | 80,675 |
| Reserves | *19* | **5,572** | 9,340 | **8,096** | 7,896 |
| Accumulated losses | | **(48,766)** | (37,699) | **(36,767)** | (27,782) |
| **Total equity attributable to equity holders of the Company** | | **70,473** | 52,316 | **84,996** | 60,789 |
| **Non-controlling interest** | *20* | **11,854** | 9,783 | **-** | - |
| **Total equity** | | **82,327** | 62,099 | **84,996** | 60,789 |
| **Liabilities** | | | | | |
| Loans and borrowings | *16* | **58,412** | 63,820 | **58,412** | 63,820 |
| Provisions | *17* | **4,970** | 4,074 | **4,970** | 4,074 |
| **Total non-current liabilities** | | **63,382** | 67,894 | **63,382** | 67,894 |
| Loans and borrowings | *16* | **5,871** | 3,614 | **5,871** | 3,614 |
| Trade and other payables | *14* | **6,109** | 11,543 | **5,744** | 10,229 |
| Provisions | *17* | **1,241** | 585 | **1,241** | 585 |
| Other liabilities | *15* | **-** | - | **36** | 446 |
| **Total current liabilities** | | **13,221** | 15,742 | **12,892** | 14,874 |
| **Total liabilities** | | **76,603** | 83,636 | **76,274** | 82,768 |
| **Total equity and liabilities** | | **158,930** | 145,735 | **161,270** | 143,557 |

The Statements of Financial Position are to be read in conjunction with the notes to the financial statements.

# Statements of Changes In Equity *for the Year Ended 31 December 2009*

| | Share capital $'000 | Share option reserve $'000 | Translation reserve $'000 | Accumulated losses $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| ***PARENT 2009*** | | | | | | | |
| **Balance at 1 January 2009** | **80,675** | **7,896** | **-** | **(27,782)** | **60,789** | **-** | **60,789** |
| **Total comprehensive income for the period** | | | | | | | |
| Loss for the period | - | - | - | (8,985) | (8,985) | - | (8,985) |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation differences | - | - | - | - | - | - | - |
| Total other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | - | (8,985) | (8,985) | - | (8,985) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | |
| Issue of ordinary shares | 33,804 | - | - | - | 33,804 | - | 33,804 |
| Share issue costs | (871) | - | - | - | (871) | - | (871) |
| Share options exercised | 45 | - | - | - | 45 | - | 45 |
| Transfer from option reserve on exercise | 14 | (14) | - | - | - | - | - |
| Share options expensed/cancelled | - | 214 | - | - | 214 | - | 214 |
| Total contributions by and distributions to owners | 32,992 | 200 | - | - | 33,192 | - | 33,192 |
| **Changes in ownership interests in subsidiaries that do not result in a loss of control** | | | | | | | |
| Non-controlling interest share of parent JV contributions | - | - | - | - | - | - | - |
| Total changes in ownership interests in subsidiaries | - | - | - | - | - | - | - |
| **Balance at 31 December 2009** | **113,667** | **8,096** | **-** | **(36,767)** | **84,996** | **-** | **84,996** |
| ***PARENT 2008*** | | | | | | | |
| **Balance at 1 January 2008** | **57,008** | **4,470** | **-** | **(8,658)** | **52,820** | **-** | **52,820** |
| **Total comprehensive income for the period** | | | | | | | |
| Loss for the period | - | - | - | (19,124) | (19,124) | - | (19,124) |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation differences | - | - | - | - | - | - | - |
| Total other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | - | (19,124) | (19,124) | - | (19,124) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | |
| Issue of ordinary shares | 23,563 | - | - | - | 23,563 | - | 23,563 |
| Share issue costs | (595) | - | - | - | (595) | - | (595) |
| Share options exercised | 582 | - | - | - | 582 | - | 582 |
| Transfer from option reserve on exercise | 117 | (117) | - | - | - | - | - |
| Share options issued (embedded options) | - | 709 | - | - | 709 | - | 709 |
| Share options expensed/cancelled | - | 2,834 | - | - | 2,834 | - | 2,834 |
| Total contributions by and distributions to owners | 23,667 | 3,426 | - | - | 27,093 | - | 27,093 |
| **Changes in ownership interests in subsidiaries that do not result in a loss of control** | | | | | | | |
| Non-controlling interest share of parent JV contributions | - | - | - | - | - | - | - |
| Total changes in ownership interests in subsidiaries | - | - | - | - | - | - | - |
| **Balance at 31 December 2008** | **80,675** | **7,896** | **-** | **(27,782)** | **60,789** | **-** | **60,789** |

Statements of Changes in Equity are to be read in conjunction with the notes to the financial statements.

# Statements of Changes In Equity *for the Year Ended 31 December 2009 (cont.)*

| | Share capital $'000 | Share option reserve $'000 | Translation reserve $'000 | Accumulated losses $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| ***CONSOLIDATED 2009*** | | | | | | | |
| **Balance at 1 January 2009** | **80,675** | **7,896** | **1,444** | **(37,699)** | **52,316** | **9,783** | **62,099** |
| **Total comprehensive income for the period** | | | | | | | |
| Loss for the period | - | - | - | (8,995) | (8,995) | - | (8,995) |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation differences | - | - | (3,968) | - | (3,968) | - | (3,968) |
| Total other comprehensive income | - | - | (3,968) | - | (3,968) | - | (3,968) |
| Total comprehensive income for the period | - | - | (3,968) | (8,995) | (12,963) | - | (12,963) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | |
| Issue of ordinary shares | 33,804 | - | - | - | 33,804 | - | 33,804 |
| Share issue costs | (871) | - | - | - | (871) | - | (871) |
| Share options exercised | 45 | - | - | - | 45 | - | 45 |
| Transfer from option reserve on exercise | 14 | (14) | - | - | - | - | - |
| Share options expensed/cancelled | - | 214 | - | - | 214 | - | 214 |
| Total contributions by and distributions to owners | 32,992 | 200 | - | - | 33,192 | - | 33,192 |
| **Changes in ownership interests in subsidiaries that do not result in a loss of control** | | | | | | | |
| Non-controlling interest share of parent JV contributions | - | - | - | (2,071) | (2,071) | 2,071 | - |
| Total changes in ownership interests in subsidiaries | - | - | - | (2,071) | (2,071) | 2,071 | - |
| **Balance at 31 December 2009** | **113,667** | **8,096** | **(2,524)** | **(48,766)** | **70,473** | **11,854** | **82,327** |
| ***CONSOLIDATED 2008*** | | | | | | | |
| **Balance at 1 January 2008** | **57,008** | **4,470** | **(147)** | **(12,218)** | **49,113** | **4,185** | **53,298** |
| **Total comprehensive income for the period** | | | | | | | |
| Loss for the period | - | - | - | (19,405) | (19,405) | - | (19,405) |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation differences | - | - | 1,591 | - | 1,591 | - | 1,591 |
| Total other comprehensive income | - | - | 1,591 | - | 1,591 | - | 1,591 |
| Total comprehensive income for the period | - | - | 1,591 | (19,405) | (17,814) | - | (17,814) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | |
| Issue of ordinary shares | 23,563 | - | - | - | 23,563 | - | 23,563 |
| Share issue costs | (595) | - | - | - | (595) | - | (595) |
| Share options exercised | 582 | - | - | - | 582 | - | 582 |
| Transfer from option reserve on exercise | 117 | (117) | - | - | - | - | - |
| Share options issued (embedded options) | - | 709 | - | - | 709 | - | 709 |
| Share options expensed/cancelled | - | 2,834 | - | - | 2,834 | - | 2,834 |
| Total contributions by and distributions to owners | 23,667 | 3,426 | - | - | 27,093 | - | 27,093 |
| **Changes in ownership interests in subsidiaries that do not result in a loss of control** | | | | | | | |
| Non-controlling interest share of parent JV contributions | - | - | - | (6,076) | (6,076) | 6,076 | - |
| Acquisition of non-controlling interest | - | - | - | - | - | (478) | (478) |
| Total changes in ownership interests in subsidiaries | - | - | - | (6,076) | (6,076) | 5,598 | (478) |
| **Balance at 31 December 2008** | **80,675** | **7,896** | **1,444** | **(37,699)** | **52,316** | **9,783** | **62,099** |

Statements of Changes in Equity are to be read in conjunction with the notes to the financial statements.

# STATEMENTS OF CASH FLOWS *for the Year Ended 31 December 2009*

| | Note | Consolidated 2009 $ | Consolidated 2008 $ | Parent 2009 $ | Parent 2008 $ |
|---|---|---|---|---|---|
| **Cash from operating activities** | | | | | |
| Receipts from customers | | **32,965** | 11,155 | **32,965** | 11,011 |
| Proceeds on realisation of hedge book | | **-** | 8,192 | **-** | 8,192 |
| Payments to suppliers and employees | | **(38,078)** | (14,859) | **(38,241)** | (14,754) |
| Financing costs and interest paid | | **(3,112)** | (4,842) | **(3,112)** | (4,842) |
| Interest received | | **275** | 1,917 | **275** | 1,893 |
| **Total cash from/(used by) operating activities** | *22* | **(7,950)** | 1,563 | **(8,113)** | 1,500 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from the sale of fixed assets | | **-** | 973 | **-** | - |
| Proceeds from sale of interest in exploration tenement | | **-** | 804 | **-** | - |
| Acquisition of property, plant and equipment | | **(2,577)** | (29,694) | **(2,482)** | (28,185) |
| Mine construction and development expenditure | | **(4,328)** | (8,441) | **(4,328)** | (8,441) |
| Acquisition of minority intrest | | **-** | (817) | **-** | - |
| Exploration and evaluation expenditure | | **(12,189)** | (16,711) | **(236)** | (982) |
| Proceeds from/(Investment in) term deposit | | **-** | 2,250 | **-** | 2,250 |
| Investments in subsidiaries | | **-** | - | **(11,922)** | (15,784) |
| **Net cash used by investing activities** | | **(19,094)** | (51,636) | **(18,968)** | (51,142) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from the issue of share capital | | **33,085** | 23,119 | **33,085** | 23,119 |
| Payment of transaction costs | | **(871)** | (595) | **(871)** | (595) |
| Realised foreign exchange losses | | **(451)** | - | **(451)** | - |
| Proceeds from other non-current borrowings | | **11,756** | 56,651 | **11,756** | 56,651 |
| Transaction costs - borrowings | | **-** | (488) | **-** | (488) |
| Repayment of borrowings | | **(8,494)** | (53,469) | **(8,494)** | (53,469) |
| **Net cash from financing activities** | | **35,025** | 25,218 | **35,025** | 25,218 |
| **Other activities** | | | | | |
| Net (decrease)/increase in cash and cash equivalents | | **7,981** | (24,855) | **7,944** | (24,424) |
| Net foreign exchange differences | | **(576)** | - | **(576)** | - |
| Cash and cash equivalents at beginning of year | | **14,499** | 39,354 | **13,979** | 38,403 |
| **Cash and cash equivalents at end of year** | *6* | **21,904** | 14,499 | **21,347** | 13,979 |

Statements of Cash Flows are to be read in conjunction with the notes to the financial statements.

# 1 General information

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian interpretations) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of Terramin Australia Limited and its controlled entities (the Group), and Terramin Australia Limited as an individual parent entity (the Company). Terramin Australia Limited is a listed public company, incorporated and domiciled in Australia.

The financial report was authorised for issue by the Directors on 25 February 2010.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

# 2 Basis of preparation

### (a) Reporting basis and conventions

The financial report is presented in Australian dollars (AUD) and has been prepared on an accruals basis and is based on historical costs, except for derivative financial instruments measured at fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## *New standards and interpretations not yet adopted*

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 31 December 2009, but have not been applied in preparing this financial report.

- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 31 December 2010 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-9 *Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share based payments between different entities within a group. As a result of the amendments AI 8 *Scope of AASB 2* and AI 11 *AASB 2 - Group Treasury and Treasury Share Transactions* will be withdrawn from the application date. The amendments, which become mandatory for the Group's 31 December 2010 financial statements, are not expected to have a significant impact on the financial statements.

### (b) Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. During 2009 the Group incurred a loss of $9.0m, bringing accumulated losses to $48.8m.
As at 31 December 2009 the Group has net assets of $82.3m including cash of $21.9m. The Group had an operating cash outflow of $8.0m in 2009 and expects to generate positive net operating cash flows in 2010 from the Angas Zinc Mine. It is the intention of the Directors to continue to explore, evaluate and develop the Group's areas of interest for which rights of tenure are current.

### (c) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 2(k) - Recoverable Amount: estimates of fair values and future cash flows. The key sensitivities in the value in use model for the Angas Zinc Mine relate to zinc and lead prices and the USD to AUD exchange rate. Recognised analyst forecast assumptions and prevailing market forward rates for commodity prices and exchange rates have been applied in determining the cash flow estimates. These assumptions are in excess of current spot prices.

- Note 2(m) - Exploration and Evaluation Expenditure: fair values and ore resourse estimates.
- Note 17 – Mine rehabilitation provision: estimates of amount and timing of future mine closure costs.
- Note 21 - Recognition of tax losses: assessment of the point in time at which it is deemed probable that future taxable income will be derived.
- Note 27 - Share Based Entitlements and Payments: assumptions are required to be made in respect to measuring share price volatility, dividend yield, future option holding period and other inputs to the Trinomial model fair value calculations.
- Note 29 – Contingencies.

### (d) Principles of consolidation

A controlled entity is any entity in respect of which the Company has the power to control the financial and operating policies so as to obtain benefits from its activities. Refer to note 25 for details of controlled entities.

Each controlled entity has a 31 December financial year end.

All inter-company balances and transactions between entities in the Group, including any unrealised profits and losses, have been eliminated on consolidation. Accounting policies of the controlled entities have been changed when necessary to ensure consistency with those policies applied by the parent entity.

Where a controlled entity entered the economic entity during the year, the operating results have been included from the date control was obtained. Non-controlling interest in the equity and results of the controlled entities are shown as a separate item in the consolidated financial report.

### (e) Comparative figures

When required by AASBs, comparative figures have been reclassified to conform to changes in presentation. No reclassifications occurred in the comparative financial period.

### (f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### (g) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. The cost of mining stocks include direct material, direct labour, transportation costs and a proportion of variable and fixed overhead costs relating to mining activities. Net realisable value is the amount to be obtained from the sale of the item of inventory in the normal course of business less the estimated costs of completion and any anticipated selling costs to be incurred prior to its sale.

### (h) Trade and other receivables

Trade and other receivables are recognised at cost and carried at original invoice amount less allowances for impairment losses.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

### (i) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

#### *Property*

Freehold land and buildings are shown at their cost.

#### *Plant and equipment*

Plant and equipment are measured on the cost basis less depreciation and any impairment losses recognised.

The depreciable amount of all property, plant and equipment, excluding freehold land, is depreciated on either a diminishing value, straight line or units of use basis over their useful lives to the Group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable asset is the lesser of the life of the mining operation and:

| Class of asset | |
|---|---|
| Motor vehicles | 22.5 – 25% |
| Computer & office equipment | 15 – 40% |
| Plant and equipment | 5 – 33% |
| Leasehold improvements | 20% |

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### *Mining property and development*

Mining property and development expenditure for the establishment of access to mineral reserves, together with expenditure transferred from exploration and evaluation and expenditure incurred in commissioning of a mine are capitalised to the extent that the expenditure results in future benefits. These amounts are amortised, upon commencement of production, over the estimated economic reserve of the mine on a units of use basis.

### *Construction in progress*

During the construction phase, self-constructed assets are classified as construction in progress within property, plant and equipment. Once commissioned these assets are reclassified to property, plant and equipment at which time they will commence being depreciated. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

**(j) Impairment of assets**

### *Non-financial assets*

At each reporting date, the Group reviews the carrying values of its non-financial assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset is determined and compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognised as an expense in the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised, with the exception that any previously impaired goodwill should not be recognised.

### *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss.

### *Angas cash generating unit impairment test*

An impairment test on the Angas CGU was undertaken as at 31 December 2009 which was based on the 'value in use' methodology. Value in use in relation to the Angas CGU, was determined by discounting the future cash flows generated from the continued use of the asset and was based on the following:

- 5 year mine life;
- Production based on the most recent reserve statement;
- Recognised analyst forecast assumptions for commodity prices and exchange rates have been applied in determining the cash flow estimates. These assumptions are in excess of current spot prices; and
- A range of pre-tax discount rates (10% - 18% (a sensitivity)) based on the Company's weighted average cost of capital adjusted for business risk specific to the CGU.

The impairment test concluded at a range of appropriate discount rates that the 'value in use' was in excess of the carrying value of the Angas CGU.

**(k) Recoverable amount**

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs.

### (l) Associates and jointly controlled entities (equity accounted investees)

Joint ventures are accounted for using the equity method (equity accounted investees) where the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discounted except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interests in such entities are accounted for using the equity method and are carried at the lower of the equity amount and recoverable amount.

### (m) Exploration and evaluation expenditure

Exploration and evaluation costs, including the costs of acquiring licenses, are capitalised as exploration and evaluation assets (E&E assets) on an area of interest basis pending determination of the technical feasibility and commercial viability of the project. The capitalised costs are presented as either tangible or intangible E&E assets according to the nature of the assets acquired. When a licence is relinquished or a project is abandoned, the related costs are recognised in the income statement immediately.

Tangible and intangible E&E assets that are available for use are depreciated (amortised) over their estimated useful lives. Upon commencement of production, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment note 2(j)). For the purposes of impairment testing, E&E assets are allocated to CGUs consistent with the determination of reporting segments.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist. Upon determination of proven reserves, intangible E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets.

Pre-licence expenditure and expenditure deemed to be unsuccessful is recognised in the income statement immediately.

### (n) Trade and other payables

Trade payables and other payables are stated at cost.

### (o) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

A provision is recognised for the estimated cost of rehabilitation, decommissioning and restoration relating to areas disturbed during operation of the Angas Zinc Mine up to reporting date but not yet rehabilitated. The provision is based upon current cost estimates and has been determined on a discounted basis with reference to current legal requirements and technology. As the provision represents the discounted value of the present obligation, using a pre-tax rate that reflects current market assessments and the risks specific to the liability, the increase in value of the provision due to the passage of time will be recognised as a borrowing cost in the income statement in future periods. The provision is recognised as a non-current liability with a corresponding asset taken to account and amortised over the life of the mine. At each reporting date the rehabilitation liability is reviewed and re-measured in line with changes in discount rates and timing or the amounts of the costs to be incurred based on area of disturbance at reporting date. Changes in the liability relating to the re-assessment of rehabilitation estimates are added to or deducted from the related asset.

### (p) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national Government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### *Share based payments*

The Company uses share options to provide incentives to Directors, employees and consultants. At the Company's 2008 Annual General Meeting, shareholders approved the issue of options to employees of the Company under the Terramin Australia Limited Employee Option Plan (EOP). The Board, upon the recommendation of senior management, has discretion to determine the number of options to be offered to Eligible Employees (as that term is defined by the EOP) and the terms upon which they are offered, including exercise price and vesting conditions. The fair value of options at grant date is independently determined using a Trinomial option pricing model that takes into account the exercise price, the term of Option, the vesting and performance criteria, the impact of dilution, the non-tradeable 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. Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate. The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised as an expense over the period during which the Directors, employees or consultants become unconditionally entitled to the options.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital.

### (q) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases (refer notes 16, 24 and 29(f)). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as loans and borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the lesser of the asset's useful life and the lease term.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

### (r) Loans and borrowings

Borrowings are recognised initially at fair value less attributable transaction costs.

Subsequent to initial recognition, loans and borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### (s) Financing costs

Financing costs include interest payable on borrowings calculated using the effective interest method, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges, mark to market of USD denominated monetary assets and liabilities, and the impact of the unwind of discount on long-term provisions for site restoration.

Financing costs incurred in relation to the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other financing costs are expensed as incurred.

### (t) Foreign currency transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. The consolidated financial statements are presented in AUD, which is the Group's functional and presentation currency. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Foreign currency differences are recognised in the income statement.

The assets and liabilities of foreign operations are translated to AUD at exchange rates at the balance date. The income and expenses of foreign operations are translated to AUD at exchange rates at the dates of the transactions. These foreign currency differences at the reporting date are recognised directly in equity.

### (u) Share capital

Ordinary shares are classified as equity. Qualifying transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

### (v) Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The Company does not recognise any deferred tax balances (refer note 21).

The Company is not part of an income tax consolidated group under the Australian Tax Consolidation Regime.

### (w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### (x) Revenue

Revenue from commodity sales is recognised when the risks and rewards of ownership have been transferred to the buyer, the quantity of the goods has been reasonably accurately determined, the price is determinable and recovery of consideration is probable. This is generally when title to the goods transfers to the buyer.

Commodity sales are recognised net of all discounts and pricing adjustments, refining and distribution costs as applicable based on either fixed or provisional pricing and assays. Commodity sales contracts allow for provisional prices and assays to be estimated where metal prices or final assays are not able to be established until future periods.

Revenue on provisional commodity sales is adjusted in future periods as final pricing and assays are confirmed.

Management fee revenue is recognised as the service is provided to the customer (joint venture associate), and is determined based on the basis of a percentage expenditure funded by the joint venture partner as per the agreement with the joint venture partner.

### (y) Derivatives

Commodity and foreign exchange hedging, in the form of fixed forward contracts, is utilised to reduce short term exposure to commodity and foreign exchange risk.

These derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured to fair value. The method of recognising the changes in fair value subsequent to initial recognition is dependent on whether the derivative is designated as a hedging instrument, the nature of the underlying item being hedged and whether the arrangement qualifies for hedge accounting.

The Group has not designated the derivative contracts entered into during the period as hedges for accounting purposes. As such, changes in fair value of hedges are recognised immediately in the income statement and are included in other income or expenses.

### (z) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes and share options granted to employees, Directors, consultants and other third parties.

### (aa) Segment reporting

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 Operating Segments. Previously operating segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The CEO monitors the results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Segment capital expenditure consists of additions of property, plant and equipment, mine properties and development and exploration and evaluation assets.

**(bb) Compound financial instruments**

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder where the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not include an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the debt component. Subsequent to recognition, the liability component is measured on the amortised cost basis until extinguished on conversion or redemption. The equity component is not re-measured.

**(cc) Financial risk management**

The Group's activities expose it to the following risks from the use of financial instruments:

### *Credit risk*

The risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's product sales, short term cash investments and derivatives.

The Company manages its credit risk by limiting its transactions to high credit quality financial institutions. Credit risk associated with outstanding receivables is limited to customers who are well established and reputable industry participants.

### *Liquidity risk*

The risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages this exposure by ensuring that at any time, it has access to sufficient cash financing facilities available on demand to settle all obligations due within 45 days (refer note 16 for detail on available financing facilities).

### *Market risk*

The risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Group's income or value of its holdings of financial instruments. The Group may enter into commodity derivatives, foreign exchange derivatives and may also incur financial liabilities (debt), in order to manage market risks. All such transactions are carried out within Board approved limits.

The Group's financial risks are managed primarily by the Chief Financial Officer and Chief Executive Officer as a part of the day-to-day management of the Company's affairs.

Finance and risk reporting is a standard item in the report presented at each Board meeting.

Specific details of how these risk exposures impact the Group, and the use of derivative financial instruments to hedge market risk, is provided in note 24 to the financial statements.

### *Capital management*

The Board seeks to maintain a strong capital base sufficient to maintain the future development of the Group's business. The Board closely monitors the Group's level of capital so as to ensure it is appropriate for the Group's planned level of activities. There were no changes to the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

# 3 Revenue and other income

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Revenue** | | | | |
| Sales revenue | **59,118** | 16,593 | **59,118** | 16,593 |
| Pricing adjustments | **409** | (181) | **409** | (181) |
| Refining and other selling costs | **(18,473)** | (6,689) | **(18,473)** | (6,689) |
| | **41,054** | 9,723 | **41,054** | 9,723 |
| **Other income** | | | | |
| Rent, hire & office services | **20** | 10 | **20** | 10 |
| Cost recoveries | **238** | 312 | **238** | 281 |
| Management fees | **5** | 82 | **5** | 125 |
| Unrealised derivative gains | **18** | 145 | **18** | 155 |
| Realised commodity derivative gains | **-** | 7,306 | **-** | 7,306 |
| Other income | **-** | 21 | **-** | - |
| | **281** | 7,876 | **281** | 7,877 |

# 4 Administration expenses

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Auditor's fees [1] | **133** | 110 | **133** | 110 |
| ASX fees | **72** | 100 | **72** | 98 |
| Computer and IT expenses | **32** | 32 | **32** | 32 |
| Consulting & professional fees | **824** | 903 | **781** | 852 |
| Insurance | **35** | 51 | **35** | 51 |
| Legal fees | **134** | 235 | **134** | 235 |
| Printing, postage & stationery | **35** | 47 | **35** | 47 |
| Rent payments | **376** | 396 | **376** | 396 |
| Share registry | **76** | 22 | **76** | 22 |
| Staff recruitment | **75** | 57 | **75** | 57 |
| Travel | **401** | 288 | **401** | 288 |
| Other expenses | **805** | 814 | **800** | 1,111 |
| | **2,998** | 3,055 | **2,950** | 3,299 |

| | | | | |
|---|---|---|---|---|
| 1 Auditors of the Company KPMG Australia: | | | | |
| Audit and review of financial reports | **113** | 90 | **113** | 90 |
| Non-audit services | **30** | 30 | **30** | 30 |
| Overseas KPMG firms: | | | | |
| Audit | **20** | 20 | **20** | 20 |
| | **163** | 140 | **163** | 140 |

## 5 Finance income and costs

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **Finance income** | | | | |
| Interest income | **273** | 1,884 | **273** | 1,860 |
| Unrealised foreign exchange gains | **6,854** | - | **6,854** | - |
| | **7,127** | 1,884 | **7,127** | 1,860 |
| **Finance costs** | | | | |
| Interest on convertibles notes | **1,562** | 1,139 | **1,562** | 1,139 |
| Interest on borrowings | **2,339** | 2,114 | **2,339** | 2,114 |
| Unwinding of discount on mine rehabilitation provision | **212** | 180 | **212** | 180 |
| Other borrowing costs | **904** | 4,373 | **942** | 4,393 |
| Unrealised foreign exchange losses | **557** | 6,874 | **557** | 6,874 |
| Realised foreign exchange losses | **694** | - | **694** | - |
| | **6,268** | 14,680 | **6,306** | 14,700 |
| **Interest on borrowings** | | | | |
| Bank loan interest | **1,880** | 1,668 | **1,880** | 1,668 |
| Lease liability interest | **459** | 446 | **459** | 446 |
| | **2,339** | 2,114 | **2,339** | 2,114 |

## 6 Cash assets

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Cash on hand | **6** | 5 | **5** | 4 |
| Bank balances | **3,168** | 2,739 | **2,612** | 2,220 |
| Short-term deposits | **18,730** | 11,755 | **18,730** | 11,755 |
| | **21,904** | 14,499 | **21,347** | 13,979 |

Short term deposits includes $7.0m and US$7.6m with maturity dates between 30 and 90 days and interest rates ranging from 4.23% to 4.45% and 0.43% to 0.48% respectively.

## 7 Inventories

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Raw materials and consumables (at cost) | **1,953** | 2,127 | **1,815** | 1,826 |
| Work in progress - ore run of mine (at cost) | **477** | - | **477** | - |
| Finished goods | **1,960** | 1,284 | **1,960** | 1,284 |
| Total inventories at cost | **4,390** | 3,411 | **4,252** | 3,110 |

Finished goods in 2009 at cost, 2008 at net realisable value.

# 8 Receivables

| | Consolidated 2009 $'000 | 2008 $'000 | Parent 2009 $'000 | 2008 $'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Trade receivables | **7,748** | 674 | **7,756** | 674 |
| Accrued interest receivable | **54** | 55 | **54** | 55 |
| Other receivables | **506** | 450 | **464** | 317 |
| | **8,308** | 1,179 | **8,274** | 1,046 |

Trade receivables relate to sales of concentrates.

# 9 Other assets

| | Consolidated 2009 $'000 | 2008 $'000 | Parent 2009 $'000 | 2008 $'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Prepayments | **210** | 24 | **210** | 24 |
| Subsidiary loans receivable | **-** | - | **126** | 87 |
| Provision for non-recovery of subsidiary loans receivable | **-** | - | **(114)** | (75) |
| | **210** | 24 | **222** | 36 |

Loans receivable from controlled entities are non-interest bearing and repayable on demand.

# 10 Derivative financial instruments

| | Consolidated 2009 $'000 | 2008 $'000 | Parent 2009 $'000 | 2008 $'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Financial instruments | **18** | 101 | **18** | 101 |
| | **18** | 101 | **18** | 101 |

Relates to US$10.2m of currency hedging against AUD held at the end of the period (2008: US$0.8m) measured at fair value.

# 11 Other financial assets

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **Non-current** | | | | |
| Investments in subsidiaries [1] | **-** | - | **1,305** | 1,305 |
| Investments in subsidiaries - expenditure contributions [2] | **-** | - | **36,531** | 26,647 |
| | **-** | - | **37,836** | 27,952 |

1 Investments in subsidiaries are carried at cost.

2 Cash funding and expenditure incurred directly by the Company on the Tala Hamza deposit (owned by Western Mediterranean Zinc Spa (WMZ)).

# 12 Investments in equity accounted investees

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Investment in associate | **1,078** | 1,080 | **-** | - |
| | **1,078** | 1,080 | **-** | - |

Represents the carrying value applied to Menninnie Dam Exploration Joint Venture (MDEJV).

# 13 (a) Property, plant and equipment

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **Freehold land** | | | | |
| At cost | **3,208** | 3,208 | **3,208** | 3,208 |
| Total freehold land | **3,208** | 3,208 | **3,208** | 3,208 |
| **Leasehold improvments** | | | | |
| At cost | **56** | 57 | **56** | 57 |
| Less accumulated depreciation | **(22)** | (12) | **(22)** | (11) |
| Total leasehold improvements | **34** | 45 | **34** | 46 |
| **Buildings and other infrastructure** | | | | |
| At cost | **45** | 28 | **45** | 28 |
| Less accumulated depreciation | **(7)** | (1) | **(7)** | (1) |
| Total buildings and other infrastructure | **38** | 27 | **38** | 27 |
| **Plant and equipment** | | | | |
| At cost | **60,382** | 58,690 | **58,989** | 56,772 |
| Less accumulated depreciation | **(12,261)** | (3,674) | **(11,807)** | (3,370) |
| Total plant and equipment | **48,121** | 55,016 | **47,182** | 53,402 |
| **Mining property and developments assets** | | | | |
| At cost | **42,006** | 37,488 | **42,006** | 37,487 |
| Less accumulated amortisation | **(7,705)** | (1,628) | **(7,705)** | (1,628) |
| Total mining property and development assets | **34,301** | 35,860 | **34,301** | 35,859 |
| **Construction in progress** | | | | |
| At cost | **123** | 505 | **123** | 505 |
| Total construction in progress | **123** | 505 | **123** | 505 |
| **Mine rehabilitation assets** | | | | |
| At cost | **4,222** | 3,812 | **4,222** | 3,812 |
| Less accumulated depreciation | **(667)** | (194) | **(667)** | (194) |
| Total mine rehabilitation assets | **3,555** | 3,618 | **3,555** | 3,618 |
| **Total property, plant and equipment** | **89,380** | 98,279 | **88,441** | 96,665 |

# 13 (b) Exploration and evaluation

| | Consolidated 2009 $'000 | Consolidated 2008 $'000 | Parent 2009 $'000 | Parent 2008 $'000 |
|---|---|---|---|---|
| **Exploration and evaluation** | | | | |
| At cost | **33,642** | 27,162 | **880** | 667 |
| **Total exploration and evaluation** | **33,642** | 27,162 | **880** | 667 |
| **Total property, plant & equipment and exploration & evaluation** | **123,022** | 125,441 | **89,321** | 97,332 |

# 13 (a) & (b) *cont.*

**Movements in carrying amounts**

| | Freehold land $'000 | Leasehold improve-ments $'000 | Buildings and other infrastructure $'000 | Plant and equipment $'000 | Mining property and development $'000 | Construc-tion in progress $'000 | Exploration and evaluation $'000 | Mine reha-bilitation assets $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **CONSOLIDATED** | | | | | | | | | |
| Opening carrying amount | 3,208 | 45 | 27 | 55,016 | 35,860 | 505 | 27,162 | 3,618 | 125,441 |
| Additions | - | - | - | 94 | - | 6,353 | 9,358 | 604 | 16,409 |
| Transfers [1] | - | - | 17 | 2,110 | 4,518 | (6,735) | - | - | (90) |
| Depreciation and amortisation | - | (11) | (6) | (8,280) | (6,077) | - | - | (667) | (15,041) |
| Writedowns | - | - | - | (50) | - | - | (23) | - | (73) |
| Foreign currency movement | - | - | - | (769) | - | - | (2,855) | - | (3,624) |
| **Carrying amount at the end of year** | **3,208** | **34** | **38** | **48,121** | **34,301** | **123** | **33,642** | **3,555** | **123,022** |
| **PARENT** | | | | | | | | | |
| Opening carrying amount | 3,208 | 45 | 27 | 53,402 | 35,860 | 505 | 667 | 3,618 | 97,332 |
| Additions | - | - | - | - | - | 6,353 | 236 | 604 | 7,193 |
| Transfers [1] | - | - | 17 | 2,110 | 4,518 | (6,735) | - | - | (90) |
| Depreciation and amortisation | - | (11) | (6) | (8,280) | (6,077) | - | - | (667) | (15,041) |
| Writedowns | - | - | - | (50) | - | - | (23) | - | (73) |
| **Carrying amount at the end of year** | **3,208** | **34** | **38** | **47,182** | **34,301** | **123** | **880** | **3,555** | **89,321** |

1 The transfer of $6.7m out of Construction in progress, includes $90 thousand of minor capital spares that was transferred to Inventory - raw materials and consumables.

# 14 Trade and other payables

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **Current** | | | | |
| **Unsecured liabilities** | | | | |
| Trade payables | **1,959** | 2,913 | **1,959** | 2,880 |
| Other payables and accrued expenses | **4,150** | 8,630 | **3,785** | 7,349 |
| | **6,109** | 11,543 | **5,744** | 10,229 |

# 15 Other liabilities

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **Current** | | | | |
| Intercompany loans | **-** | - | **36** | 446 |
| | **-** | - | **36** | 446 |

# 16 Loans and borrowings

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **Current** | | | | |
| Lease liabilities (note 29(f)) [1] | **1,871** | 1,614 | **1,871** | 1,614 |
| Bank loans - secured - Angas Zinc Mine [2] | **4,000** | 2,000 | **4,000** | 2,000 |
| | **5,871** | 3,614 | **5,871** | 3,614 |
| **Non-current** | | | | |
| Lease liabilities (note 29(f)) [1] | **2,272** | 3,896 | **2,272** | 3,896 |
| Bank loans - secured - Angas Zinc Mine [2] | **17,634** | 25,981 | **17,634** | 25,981 |
| Convertible notes [3] | **38,506** | 33,943 | **38,506** | 33,943 |
| | **58,412** | 63,820 | **58,412** | 63,820 |
| **Financing facilities** | | | | |
| Bank loan facilities - available [2] | **23,000** | 30,000 | **23,000** | 30,000 |
| Bank loan facilities - undrawn | **-** | - | **-** | - |
| **Bank loan facilities - drawn** | **23,000** | 30,000 | **23,000** | 30,000 |
| Less: unamortised transaction costs | **(1,366)** | (2,019) | **(1,366)** | (2,019) |
| **Carrying amount at 31 December** | **21,634** | 27,981 | **21,634** | 27,981 |
| Guarantee facility - available [4] | **5,000** | 5,000 | **5,000** | 5,000 |
| Guarantee facility - undrawn | **-** | - | **-** | - |
| **Guarantee facility - drawn** | **5,000** | 5,000 | **5,000** | 5,000 |

1 Lease liabilities are effectively secured by rights to the leased assets.

2 The Company has a corporate revolving AUD loan facility provided by Investec Bank (Australia) Limited. Interest is payable on the facilities at bank bill swap reference rate for the period plus a margin. Interest is payable quarterly on the facility. Repayment of principal on the facility commenced in August 2009 with the final repayment due in August 2012. Proceeds from the exercise of part or all of the total 7,754,630 options held by Investec Bank (Australia) Limited (4,629,630 of which are exercisable at $2.16 before May 2012 and the remaining 3,125,000 of which are exercisable at $2.80 before March 2013, subject to extension) must be applied by the Company to repayment of the facility.

3 RBS Sempra Metals & Concentrates LLC (RBS) holds US$20.05m (A$22.4m) in five year unlisted convertible redeemable notes issued by the Company, with a maturity date of 31 March 2013. The notes are repayable in either cash or shares with reference to the volume weighted average price (VWAP) of the Company's shares around the time of repayment.

The notes can be converted to shares at the discretion of the Company at any time, or at the election of RBS after the earlier of two years after issue date of the notes or after the completion of the definitive feasibility study for the Tala Hamza deposit. Any unconverted notes are to be repaid in cash at maturity. Interest is payable semi-annually based on the London Interbank Offered Rate (LIBOR) plus a margin of 200 basis points and can be paid in cash or shares at the election of the Company. The USD balance owing has been translated to AUD equivalents using the spot currency rate at 31 December 2009, which has given rise to an unrealised foreign currency exchange gain of $6.6m for the year.

In September 2008, the Company issued $5.0m in five year unlisted convertible notes having a maturity date of 17 September 2013 to an institutional investor. The note holder has the right to convert the notes into fully paid ordinary shares in the capital of the Company at a conversion price of $2.21 per note. The interest rate is fixed at 8.00% per annum, with interest payable in cash or shares at the discretion of the Company.

In September 2009, the Company issued US$10.0m (A$11.1m) in 5 year unlisted convertible redeemable notes to Transaminvest S.A. The notes have a maturity date of 23 September 2014. The notes are repayable in either cash or shares with reference to the volume weighted average price (VWAP) of the Company's shares around the time of repayment.

The notes can be converted to shares at the discretion of the Company at any time or at the election of Transaminvest S.A at any time after 12 months subject to a minimum VWAP of $1.70. Interest is payable semi annually based on the LIBOR plus a margin of 200 basis points and can be paid in cash or shares at the election of the Company. The USD balance owing has been translated to AUD equivalents using the spot currency rate at 31 December 2009, which has given rise to an unrealised foreign exchange gain of $0.3m for the year.

4 A $5.0m guarantee facility has been provided by Investec Bank (Australia) Limited in relation to rehabilitation bonds required by Department of Primary Industries and Resources South Australia (PIRSA) over the ML 6229.

# 17 Provisions

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Current** | | | | |
| Employee benefits | **991** | 585 | **991** | 585 |
| Other | **250** | - | **250** | - |
| | **1,241** | 585 | **1,241** | 585 |
| **Non-current** | | | | |
| Employee benefits | **161** | 82 | **161** | 82 |
| Mine rehabilitation | **4,809** | 3,992 | **4,809** | 3,992 |
| | **4,970** | 4,074 | **4,970** | 4,074 |

| | Employee benefits $'000 | Mine rehabilitation $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **At 1 January 2009** | 667 | 3,992 | - | 4,659 |
| Increases in provisions | 1,598 | 605 | 250 | 2,453 |
| Paid during the period | (1,113) | - | - | (1,113) |
| Unwind | - | 212 | - | 212 |
| **At 31 December 2009** | **1,152** | **4,809** | **250** | **6,211** |

The Group recognises that it has an obligation to rehabilitate its Angas Zinc Mine at the end of the life of mine. A provision is recognised for these costs based on the area of disturbance at balance date. The mine rehabilitation costs are provided for at present value of future expected expenditure. A corresponding asset is also recognised as a tangible asset in property, plant and equipment to the extent that future economic benefits are considered probable.

# 18 Issued capital

### (a) Ordinary shares

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| 158,388,677 (2008: 110,625,605) ordinary shares | **116,914** | 83,051 | **116,914** | 83,051 |
| Share issue costs | **(3,247)** | (2,376) | **(3,247)** | (2,376) |
| | **113,667** | 80,675 | **113,667** | 80,675 |

The holders of ordinary shares are entitled to one vote per share at meetings of the Company and participation in dividends declared.

# 18 Issued Capital *(cont.)*

### (b) Capital issued during the year

| Type of share issue | Number of ordinary shares on issue | Exercise price $ | Share capital $'000 | Employee, consultant or other |
|---|---|---|---|---|
| **Opening balance 1 January 2009** | **110,625,605** | | **80,675** | |
| Shares issued in lieu of interest | 505,648 | 0.39 | 197 | Other |
| Share placement | 11,538,462 | 0.65 | 7,500 | Other |
| Shares issued in lieu of interest | 812,740 | 0.70 | 567 | Other |
| Share placement | 15,500,000 | 0.65 | 10,075 | Other |
| Exercise of options | 75,000 | 0.60 | 45 | Employee |
| Share placement | 19,331,222 | 0.80 | 15,465 | Other |
| **Closing balance 31 December 2009** | **158,388,677** | | **114,524** | |
| Share issue costs | | | (871) | |
| Transfer of option reserve to issued capital following option exercise | | | 14 | |
| **Issued capital** | | | **113,667** | |

### (c) Table of share options outstanding for the Group at 31 December 2009

| Expiry date | Exercise price $ | Number of options on issue |
|---|---|---|
| 08-May-10 | 2.76 | 300,000 |
| 16-Jun-10 | 0.52 | 185,000 |
| 16-Feb-11 | 0.60 | 130,000 |
| 03-May-11 | 1.44 | 25,000 |
| 04-May-11 | 4.11 | 750,000 |
| 04-May-11 | 4.93 | 500,000 |
| 07-Jun-11 | 1.26 | 467,000 |
| 07-Aug-11 | 1.42 | 280,000 |
| 22-Feb-12 | 1.97 | 725,000 |
| 08-May-12 | 2.43 | 1,075,000 |
| 21-May-12 | 2.16 | 4,629,630 |
| 17-Jun-12 | 3.32 | 150,000 |
| 09-Sep-12 | 2.92 | 100,000 |
| 11-Nov-12 | 3.74 | 50,000 |
| 19-Dec-12 | 3.55 | 325,000 |
| 23-Jan-13 | 2.66 | 275,000 |
| 15-Mar-13 | 2.80 | 3,125,000 |
| 20-Jul-13 | 2.45 | 575,000 |
| 07-Sep-13 | 2.12 | 20,000 |
| **TOTAL** | | **13,686,630** |

### (d) Options exercised during the year

75,000 fully paid ordinary shares in the capital of the Company were issued on the exercise of options. The exercise price of the options was 60 cents.

### (e) Table of share options movement for the Group at 31 December 2009

| | Number of options | Options expense this period $'000 | Total option value $'000 |
|---|---|---|---|
| **Opening balance** | **16,661,630** | **-** | **-** |
| Options issued | - | - | - |
| **Total** | **16,661,630** | **-** | **-** |
| Options exercised during the period | (75,000) | - | - |
| Options lapsed during the period | (2,900,000) | (15) | - |
| Expense relating to prior years option issues | - | 229 | - |
| Option expense capitalised as transaction cost | - | - | - |
| **Total** | **13,686,630** | **214** | **-** |

# 19 Reserves

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **Foreign currency reserve** | | | | |
| Balance at the beginning of the year | **1,444** | (147) | **-** | - |
| Adjustment arising on translation into presentation currency | **(3,968)** | 1,591 | **-** | - |
| **Balance at the end of the year** | **(2,524)** | 1,444 | **-** | - |
| **Share option reserve** | | | | |
| Balance at the beginning of the year | **7,896** | 4,470 | **7,896** | 4,470 |
| Options expensed during the period | **214** | 1,708 | **214** | 1,708 |
| Options expense capitalised as transaction cost | **-** | 1,126 | **-** | 1,126 |
| Embedded options capitalised as transaction cost | **-** | 709 | **-** | 709 |
| Options exercised during the period | **(14)** | (117) | **(14)** | (117) |
| **Balance at the end of the year** | **8,096** | 7,896 | **8,096** | 7,896 |
| **Total reserves** | **5,572** | 9,340 | **8,096** | 7,896 |

During the year no options were issued.

# 20 Non-controlling interest

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Balance at the beginning of year | **9,783** | 4,185 | **-** | - |
| Shares issued | **-** | - | **-** | - |
| Share of profit/(loss) | **2,071** | 5,598 | **-** | - |
| **Balance at the end of the year** | **11,854** | 9,783 | **-** | - |

Profit attributable to the non-controlling interest in 2009 relates to the 35% minority interest (ENOF 32.5% and ORGM 2.5%) in exploration and evaluation costs for the Oued Amizour Zinc Project funded directly by the Company through its 65% shareholding in WMZ. During 2009, the Company funded approximately $9.9m of exploration and evaluation costs in Algeria, of which ENOF and ORGM are entitled to $3.5m (35%). 35% of all assets contributed to WMZ by the Company effectively accrue to ENOF & ORGM for nil consideration (other than forming part of the Company's 65% earn-in) and has therefore been included in profit attributable to the non-controlling interest.

# 21 Income tax expense

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Prima facie tax benefit on loss before income tax at 30% (2008: 30%) | **(2,699)** | (5,821) | **(2,696)** | (5,737) |
| Decrease in income tax benefit due to: | | | | |
| (Deductible)/non-deductable items | **(2,050)** | 1,622 | **(2,050)** | 1,771 |
| | **(4,749)** | (4,199) | **(4,746)** | (3,966) |
| Deferred tax asset not brought to account | **(4,749)** | 4,199 | **(4,746)** | 3,966 |
| Balance | **-** | - | **-** | - |
| Unused tax losses for which no deferred tax asset has been recognised | **64,293** | 39,988 | **63,395** | 38,348 |
| Potential tax benefit | **19,288** | 11,996 | **19,019** | 11,504 |
| The applicable weighted average effective tax rates are as follows: | **30%** | 30% | **30%** | 30% |

The Company has potential future net income tax benefits of $8.9m (net of deferred tax liabilities in relation to mine development, property plant & equipment and exploration expenditure not shown above) (2008: $6.3m) calculated at 30% attributable to tax losses and temporary differences carried forward. These have not been brought to account because the Directors do not consider the realisation of the future tax benefit as probable. The benefit of these tax losses will be obtained if:

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

# 22 Cash flow information

### (a) Reconciliation of cash

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at year end:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Cash at banks and in hand | **3,174** | 2,744 | **2,617** | 2,224 |
| Short-term deposits | **18,730** | 11,755 | **18,730** | 11,755 |
| **Closing cash balance** | **21,904** | 14,499 | **21,347** | 13,979 |

### (b) Reconciliation of cash flow from operations with profit from ordinary activities after income tax

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Loss for the period | **(8,995)** | (19,405) | **(8,985)** | (19,124) |
| **Adjustment for** | | | | |
| Depreciation and amortisation | **15,041** | 5,146 | **15,041** | 5,143 |
| Unrealised (gain)/loss on foreign exchange | **(6,297)** | - | **(6,297)** | - |
| Unrealised derivative (gain)/loss | **(18)** | (100) | **(18)** | (100) |
| Non-cash inventory movements | **334** | 278 | **334** | 278 |
| Share options expense | **214** | 1,708 | **214** | 1,708 |
| Exploration expenditure written off | **23** | 2,509 | **23** | 2,349 |
| Impairment of investment in associate | **-** | 1,243 | **-** | - |
| Intercompany loan forgiveness | **-** | - | **39** | 20 |
| Provision for diminution | **-** | - | **-** | 839 |
| Shares issued in lieu of interest | **764** | 1,027 | **764** | 1,027 |
| Writedown of fixed assets | **50** | - | **50** | - |
| Realised foreign exchange (gain)/loss | **1,026** | - | **1,026** | - |
| Net financing costs | **1,815** | 12,311 | **1,815** | 12,311 |
| Other | **(4)** | (364) | **(4)** | 124 |
| | | | | |
| (Increase)/Decrease in trade and other receivables | **(7,128)** | 347 | **(7,576)** | 420 |
| (Increase)/Decrease in inventory | **(977)** | (3,412) | **(1,115)** | (3,112) |
| (Increase)/Decrease in prepayments | **(185)** | 102 | **(209)** | 102 |
| (Decrease)/Increase in trade payables and accruals | **(3,246)** | (204) | **(2,848)** | (862) |
| (Decrease)/Increase in provisions | **485** | (475) | **485** | (475) |
| (Decrease)/Increase in unearned income | **(852)** | 852 | **(852)** | 852 |
| **Cashflow from operating activities** | **(7,950)** | 1,563 | **(8,113)** | 1,500 |

# 23 Related parties

Directors and other key management personnel during the year:

**Executive Directors** KC Moriarty

**Non-executive Directors**

MH Kennedy
SA Bonett
P Zachert (appointed 5 June 2009)
RW Jones (appointed 5 June 2009)
RB Davis (appointed 23 July 2009)
Y Xie (appointed 18 September 2009)
DA Paterson (resigned 4 April 2009)
JT Hazel (resigned 5 June 2009)

**Specified Executives**

| | |
|---|---|
| MS Janes | *Chief Financial Officer* |
| AC Robertson | *General Manager Operations* |
| RP Singer | *Chief Geologist* |
| J Burgess | *General Manager Tala Hamza Project* |
| JP Wilhelm | *Vice President North Africa* |

**Key management personnel – options and rights over equity instruments**

| | Shares balance 1/01/2009 | Options balance 1/01/2009 | Shares acquired during year | Options received as incentive | Shares disposed of during year | Options exercised | Options expired | Balance options 31/12/2009 | Balance shares 31/12/2009 |
|---|---|---|---|---|---|---|---|---|---|
| **Parent Entity Directors** | | | | | | | | | |
| KC Moriarty | 9,026,313 | 3,000,000 | - | - | - | - | (2,000,000) | 1,000,000 | 9,026,313 |
| MH Kennedy | 300,000 | 300,000 | - | - | - | - | - | 300,000 | 300,000 |
| SA Bonett | 250,000 | 250,000 | - | - | - | - | - | 250,000 | 250,000 |
| P Zachert | - | - | - | - | - | - | - | - | - |
| RW Jones | 190,000 | 150,000 | - | - | - | - | - | 150,000 | 190,000 |
| RB Davis | 31,470 | - | - | - | - | - | - | - | 31,470 |
| Y Xie | - | - | - | - | - | - | - | - | - |
| DA Paterson | 9,164,302 | 500,000 | - | - | - | - | (500,000) | - [1] | - [1] |
| JT Hazel | 55,000 | 250,000 | - | - | - | - | (250,000) | - [2] | - [2] |
| **Specified Executives** | | | | | | | | | |
| MS Janes | 46,470 | 630,000 | - | - | - | - | - | 630,000 | 46,470 |
| AC Robertson | - | 350,000 | - | - | - | - | - | 350,000 | - |
| RP Singer | - | 350,000 | - | - | - | - | - | 350,000 | - |
| J Burgess | - | 300,000 | - | - | - | - | - | 300,000 | - |
| JP Wilhelm | - | 200,000 | - | - | - | - | - | 200,000 | - |
| **Total** | **19,063,555** [3] | **6,280,000** | **-** | **-** | **-** | **-** | **(2,750,000)** | **3,530,000** | **9,844,253** |

1 DA Paterson resigned on 4 April 2009. His share balance at this date was 9,164,302. As Mr Paterson is no longer a Director of the Company his share holdings as at 31 December 2009 have not been disclosed. During the period, 500,000 options held by Mr Paterson expired.

2 JT Hazel resigned on 5 June 2009. His share balance at this date was 55,000. As Mr Hazel is no longer a Director of the Company, his share holdings as at 31 December have not been disclosed. During the period, 250,000 options held by Mr Hazel expired.

3 The balance of shares held by Directors and Specified Executives as at 31 December 2008 was 18,842,085. The balance of shares held by Directors and Specified Executives as at 1 January 2009 has been amended to reflect the existing shareholdings of RW Jones and RB Davis at their respective appointment dates.

### Key management personnel compensation

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Short-term employee benefits | **807** | 787 | **807** | 787 |
| Post-employment benefits | **73** | 71 | **73** | 71 |
| Share-based payments | **-** | 997 | **-** | 997 |
| | **880** | 1,855 | **880** | 1,855 |

### Other key management personnel transactions

Some key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

These entities transacted with the Company in the reporting period. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The value of transactions relating to Key Management Personnel and entities over which they have control or significant influence were as follows:

| | | | Consolidated | | Parent | |
|---|---|---|---|---|---|---|
| | *Transaction* | *Note* | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| KC Moriarty | *Consultant fees* | *1* | **511** | 402 | **511** | 402 |
| KC Moriarty | *Other* | | **9** | - | **9** | - |
| DA Paterson | *Consultant fees* | *2* | **18** | 81 | **18** | 81 |
| JP Wilhelm | *Consultant fees* | *3* | **253** | 240 | **253** | 240 |
| J Burgess | *Consultant fees* | *4* | **274** | 219 | **274** | 219 |
| | | | **1,065** | 942 | **1,065** | 942 |

1 Dr Moriarty is engaged by the Company as a consultant to manage day to day activities.

2 Mr Paterson provided regular consultancy services to the Company including investor relations, marketing, new projects and select financial matters prior to his resignation on 4 April 2009.

3 Mr Wilhelm provides services relating to the management of the Company's activities in Algeria.

4 Mr Burgess provides services relating to the management of the Tala Hamza project and the Angas Zinc Mine.

Information regarding the compensation of individual directors and key management personnel and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' Report on page 7.

There are no other related party transactions.

# 24 Financial instruments and risk exposures

The Group is exposed to market risk in the form of commodity price risk, foreign currency exchange risk, and interest rate risk. The carrying value of the financial assets and liabilities of the Company and Group, together with the equity and profit or loss impact during the period (if any), that are affected by market risk are categorised as follows:

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | *Note* | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Receivables | *8* | **8,308** | 1,179 | **8,274** | 1,046 |
| Financial liabilities at amortised cost | *16* | **(64,283)** | (67,434) | **(64,283)** | (67,434) |
| Financial assets at fair value through profit and loss | *24.1(b)* | **18** | 101 | **18** | 101 |
| | | **(55,957)** | (66,154) | **(55,991)** | (66,287) |

## *Fair value*

The fair values of the financial assets and liabilities of the Company and Group are equal to the carrying amount in the accounts (as detailed above). In the case of loans and borrowings it is considered that the variable rate debt and associated credit margin is in line with current market rates and therefore is carried in the accounts at fair value.

## *The Group's exposure and sensitivity to financial risk is detailed as follows:*

## 1. Market risk

### (a) Commodity price risk

The Company is exposed to commodity price and exchange rate volatility in respect to future sales of commodities derived from the Angas Zinc Mine. The Company has no outstanding commodity hedging contracts as at 31 December 2009.

## *Sensitivity analysis*

Sensitivity to fluctuations in commodity prices in the below tables has been assessed based on existing price exposures in respect of commodity sales that occurred during the reporting period. There were no fixed forward commodity contracts in place at 31 December 2009.

A 10 percent increase in the zinc and lead commodity prices at 31 December 2009 would have decreased losses by the amounts shown below. This analysis assumes that all other variables remain constant, in particular interest rates, currency rates and other metal prices.

*Effect in AUD thousands*

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| 31 December 2009 | | Equity | Profit or (loss) | Equity | Profit or (loss) |
| Zinc | - | - | - | - | |
| Lead | | 851 | 851 | 851 | 851 |
| **Total** | | **851** | **851** | **851** | **851** |

There was no outstanding zinc price exposure in respect of zinc sales that occurred in the reporting period.

Note that a 10 percent fall in lead commodity prices at 31 December 2009 would have increased losses by $851 thousand.

### (b) Currency risk

The Group is exposed to foreign currency risk on debt, as a result of USD convertible note issues, purchases and cash at bank which are denominated in a currency other than AUD. The currencies giving rise to this are primarily USD and Algerian Dinar (DZD). The Company does not enter into derivative financial instruments to hedge such transactions denominated in a foreign currency.

The Group is also exposed to foreign currency risk on future USD denominated commodity sales. This exposure is partially mitigated by the AUD/USD fixed forward hedging contracts below (see note 10).

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| Current assets | **18** | 101 | **18** | 101 |
| Non-current assets | **-** | - | **-** | - |
| Current liabilities | **-** | - | **-** | - |
| Non-current liabilities | **-** | - | **-** | - |
| **Net amount recognised in income statement** | **18** | 101 | **18** | 101 |

The Group's exposure to foreign currency risk at balance date was as follows:

| | **31 December 2009** | | 31 December 2008 | |
|---|---|---|---|---|
| **In AUD thousand equivalent** | **USD** | **DZD** | USD | DZD |
| Cash at bank | **10,497** | **-** | - | - |
| Trade receivables | **7,743** | **-** | 641 | - |
| Trade payables | **-** | **(365)** | - | (911) |
| Convertible note | **(33,504)** | **-** | (28,941) | - |
| **Gross balance sheet exposure** | **(15,264)** | **(365)** | (28,300) | (911) |

The Company's exposure to foreign currency risk at balance date was as follows:

| | **31 December 2009** | | 31 December 2008 | |
|---|---|---|---|---|
| **In AUD thousand equivalent** | **USD** | **DZD** | USD | DZD |
| Cash at bank | **10,497** | **-** | - | - |
| Trade receivables | **7,743** | **-** | 641 | - |
| Trade payables | **-** | **-** | - | - |
| Convertible note | **(33,504)** | **-** | (28,941) | - |
| **Gross balance sheet exposure** | **(15,264)** | **-** | (28,300) | - |

# 24 Financial instruments and risk exposures *(cont.)*

The following significant exchange rates applied for the Group balance sheet:

| | Currency | **2009 USD** | 2008 USD |
|---|---|---|---|
| Year end rates used for the consolidated balance sheets, to translate the following currencies into AUD | AUD | **0.90** | 0.69 |

| | Currency | **2009 DZD** | 2008 DZD |
|---|---|---|---|
| Year end rates used for the consolidated balance sheets, to translate the following currencies into AUD | AUD | **66.47** | 50.48 |

## *Sensitivity analysis*

Sensitivity to fluctuations in foreign currency rates is based on outstanding monetary items at 31 December 2009 which are denominated in a foreign currency. A 10 percent strengthening of the AUD against the following currencies at the end of the reporting period would have decreased losses by the amounts shown below. This analysis assumes that all other variables remain constant, in particular interest rates.

### *Effect in AUD thousands*

| | Consolidated | | Parent | |
|---|---|---|---|---|
| 31 December 2009 | Equity | Profit or (loss) | Equity | Profit or (loss) |
| USD | 2,478 | 2,478 | 2,478 | 2,478 |
| **Total** | **2,478** | **2,478** | **2,478** | **2,478** |

A 10 percent weakening of the AUD against the following currencies at the end of the reporting period would have increased losses by the amounts shown below.

### *Effect in AUD thousands*

| | Consolidated | | Parent | |
|---|---|---|---|---|
| 31 December 2009 | Equity | Profit or (loss) | Equity | Profit or (loss) |
| USD | (3,019) | (3,019) | (3,019) | (3,019) |
| **Total** | **(3,019)** | **(3,019)** | **(3,019)** | **(3,019)** |

### (c) Interest rate risk

The Group has an exposure to future interest rates on investments in variable-rate securities and variable-rate borrowings. The Group does not use derivatives to mitigate these exposures.

The Group's exposure to interest rate risk and effective weighted average interest rates are as follows:

| | Effective interest rate | Total $'000 | Floating interest rate $'000 | Fixed interest rate $'000 |
|---|---|---|---|---|
| **Consolidated - 2009** | | | | |
| Cash [1] | 0.62% | 3,174 | 3,174 | - |
| Short-term deposits [1] | 2.50% | 18,730 | 18,730 | - |
| Finance lease liabilities | 9.58% | (4,143) | - | (4,143) |
| Bank loans - secured | 6.56% | (23,000) | (23,000) | - |
| Convertible notes [1] | 3.25% | (38,506) | (33,504) | (5,002) |
| **Net financial liabilities** | | **(43,745)** | **(34,600)** | **(9,145)** |
| **Parent - 2009** | | | | |
| Cash [1] | 0.62% | 2,617 | 2,617 | - |
| Short-term deposits [1] | 2.50% | 18,730 | 18,730 | - |
| Finance lease liabilities | 9.58% | (4,143) | - | (4,143) |
| Bank loans - secured | 6.56% | (23,000) | (23,000) | - |
| Convertible notes [1] | 3.25% | (38,506) | (33,504) | (5,002) |
| **Net financial liabilities** | | **(44,302)** | **(35,157)** | **(9,145)** |
| **Consolidated - 2008** | | | | |
| Cash [1] | 3.35% | 2,744 | 2,744 | - |
| Short-term deposits | 4.72% | 11,755 | 11,755 | - |
| Finance lease liabilities | 9.72% | (5,510) | - | (5,510) |
| Bank loans - secured | 6.93% | (30,000) | (30,000) | - |
| Convertible notes [1] | 5.30% | (33,943) | (28,941) | (5,002) |
| **Net financial assets** | | **(54,954)** | **(44,442)** | **(10,512)** |
| **Parent - 2008** | | | | |
| Cash [1] | 3.35% | 2,224 | 2,224 | - |
| Short-term deposits | 4.72% | 11,755 | 11,755 | - |
| Finance lease liabilities | 9.72% | (5,510) | - | (5,510) |
| Bank loans - secured | 6.93% | (30,000) | (30,000) | - |
| Convertible notes [1] | 5.30% | (33,943) | (28,941) | (5,002) |
| **Net financial assets** | | **(55,474)** | **(44,962)** | **(10,512)** |

1 Includes AUD and USD denominated balances.

## *Sensitivity analysis*

As the Group does not account for any financial assets and liabilities at fair value and does not use interest rate derivatives a change in interest rates at reporting date would have no effect on profit and loss.

For the 2009 financial year however, a 1 percent increase in the effective interest rate would have increased losses by $205 thousand.

# 24 Financial instruments and risk exposures *(cont.)*

## 2. Credit risk

The Group has no significant concentrations of credit risk. Derivative counterparties and cash term deposits are limited to high credit quality financial institutions.

The Group does however have a credit exposure to outstanding receivables resulting from commodity sales. Existing off take agreements regarding commodities result in a limited number of customers, all of whom are well established and reputable industry participants.

## 3. Liquidity risk

The contractual maturities of financial liabilities, including estimated interest payments:

| | Carrying amount $'000 | Contractual cash flows $'000 | 6 mths or less $'000 | 6-12 mths $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 |
|---|---|---|---|---|---|---|---|
| **Consolidated 2009** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | 6,109 | (6,109) | (6,109) | - | - | - | - |
| Bank loans - secured | 23,000 | (25,868) | (754) | (4,688) | (20,426) | - | - |
| Convertible notes | 38,506 | (44,103) | (626) | (626) | (2,504) | (40,347) | - |
| Finance lease liabilities | 4,143 | (4,597) | (1,085) | (1,085) | (2,360) | (67) | - |
| | **71,758** | **(80,677)** | **(8,574)** | **(6,399)** | **(25,290)** | **(40,414)** | **-** |
| **Parent 2009** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | 5,744 | (5,744) | (5,744) | - | - | - | - |
| Bank loans - secured | 23,000 | (25,868) | (754) | (4,688) | (20,426) | - | - |
| Convertible notes | 38,506 | (44,103) | (626) | (626) | (2,504) | (40,347) | - |
| Finance lease liabilities | 4,143 | (4,597) | (1,085) | (1,085) | (2,360) | (67) | - |
| | **71,393** | **(80,312)** | **(8,209)** | **(6,399)** | **(25,290)** | **(40,414)** | **-** |

Refer table in note 24.1(b) for maturity profile of derivative financial instruments.

| | Carrying amount $'000 | Contractual cash flows $'000 | 6 mths or less $'000 | 6-12 mths $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 |
|---|---|---|---|---|---|---|---|
| **Consolidated 2008** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | 11,543 | (11,543) | (11,543) | - | - | - | - |
| Bank loans - secured | 30,000 | (35,163) | (1,039) | (3,005) | (18,703) | (12,416) | - |
| Convertible notes | 33,943 | (41,609) | (867) | (866) | (3,466) | (36,409) | - |
| Finance lease liabilities | 5,510 | (6,408) | (1,032) | (1,032) | (3,759) | (586) | - |
| | **80,996** | **(94,723)** | **(14,481)** | **(4,903)** | **(25,928)** | **(49,411)** | **-** |
| **Parent 2008** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | 10,230 | (10,230) | (10,230) | - | - | - | - |
| Bank loans - secured | 30,000 | (35,163) | (1,039) | (3,005) | (18,703) | (12,416) | - |
| Convertible notes | 33,943 | (41,609) | (867) | (866) | (3,466) | (36,409) | - |
| Finance lease liabilities | 5,510 | (6,408) | (1,032) | (1,032) | (3,759) | (586) | - |
| | **79,683** | **(93,410)** | **(13,168)** | **(4,903)** | **(25,928)** | **(49,411)** | **-** |

# 25 Controlled entities

**Incorporation of subsidiaries**

| Name | Country of incorporation | Percentage Owned 2009 | 2008 |
|---|---|---|---|
| **Parent entity** | | | |
| Terramin Australia Limited | Australia | | |
| **Subsidiary of parent entity** | | | |
| Menninnie Metals Pty Ltd [1] | Australia | **100%** | 100% |
| Western Mediterranean Zinc Spa | Algeria | **65%** | 65% |
| Terramin Spain S.L. | Spain | **100%** | 100% |
| Terramin Exploration Pty Ltd | Australia | **100%** | 100% |
| Terramin Investments S.L. | Spain | **100%** | 100% |

1 During the reporting period, Menninnie Metals Limited was converted to a proprietary limited company, Menninnie Metals Pty Ltd.

# 26 Segment reporting

For management purposes, the Group is organised into business units based on geography and has two reportable operating segments:

Australia – Develops and mines zinc and lead deposits

Northern Africa – Developing a zinc and lead deposit

No operating segments have been aggregated to form the above reportable operating segments.

| | Australia | | Northern Africa | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **Revenue** | | | | | | |
| External customers | **41,054** | 9,723 | **-** | - | **41,054** | 9,723 |
| **Total revenue** | **41,054** | 9,723 | **-** | - | **41,054** | 9,723 |
| **Results** | | | | | | |
| Depreciation and amortisation | **(15,041)** | (5,146) | **-** | - | **(15,041)** | (5,146) |
| Exploration and evaluation write down | **(23)** | (2,509) | **-** | - | **(23)** | (2,509) |
| **Loss before income tax** | **(8,995)** | (19,396) | **-** | (9) | **(8,995)** | (19,405) |
| Income tax expense | **-** | - | **-** | - | **-** | - |
| **Loss for the period attributable to equity holders of the Company** | **-** | - | **-** | - | **(8,995)** | (19,405) |
| **Operating assets** | **124,697** | 116,871 | **34,233** | 28,864 | **158,930** | 145,735 |
| **Operating liabilities** | **76,238** | 82,725 | **365** | 911 | **76,603** | 83,636 |
| **Other disclosures** | | | | | | |
| Capital expenditure [1] | **7,216** | 51,419 | **9,193** | 9,713 | **16,409** | 61,133 |

1 Capital expenditure consists of additions of property, plant and equipment, mine properties and development and exploration and evaluation assets.

# 26 Segment reporting *(cont.)*

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's income taxes are managed on a Group basis and are not allocated to operating segments.

# 27 Share based entitlements and payments

The Company uses share options to provide incentives to Directors, employees and consultants. At the Company's 2008 Annual General Meeting, shareholders approved the issue of options to employees of the Company under the Terramin Australia Limited Employee Option Plan (EOP). The Board, upon the recommendation of senior management, has discretion to determine the number of options to be offered to Eligible Employees (as that term is defined by the EOP) and the terms upon which they are offered, including exercise price and vesting conditions.

There were no share options issued during the year.

# 28 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share at 31 December 2009 was based on the net loss attributable to equity holders of the Company of $9.0m (2008: $19.4m) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 130,487,796 (2008: 103,966,348), calculated as follows:

| | Consolidated | |
|---|---|---|
| | **2009 $'000** | 2008 $'000 |
| Net loss for the year attributable to the equity holders of the Company | **(8,995)** | (19,405) |

| | | |
|---|---|---|
| Issued ordinary shares | **158,388,677** | 110,625,605 |
| Weighted average number of ordinary shares | **130,487,796** | 103,966,348 |
| Basic earnings per share (cents) | **(6.89)** | (18.66) |

### (b) Diluted earnings per share

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

| | Consolidated | |
|---|---|---|
| | **2009 $'000** | 2008 $'000 |
| Diluted earnings per share (cents) | **(6.89)** | (18.66) |

# 29 Commitments and contingencies

There are contractual commitments at the reporting date as follows:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **(a) Operating lease** | | | | |
| Non-cancellable operating leases contracted but not capitalised in the financial statements payable: | | | | |
| Within one year | **900** | 729 | **900** | 729 |
| One to five years | **3,093** | 2,642 | **3,093** | 2,624 |
| **Total** | **3,993** | 3,371 | **3,993** | 3,353 |
| Represents a property lease with a five-year term, rent payable monthly and a three year option to renew. | | | | |
| **(b) 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: | | | | |
| Within one year | **470** | 535 | **470** | 535 |
| One to five years | **738** | 960 | **738** | 960 |
| **Total** | **1,208** | 1,495 | **1,208** | 1,495 |
| **(c) Employee remuneration 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: | | | | |
| Within one year | **32** | 180 | **32** | 180 |
| One to five years | **-** | 29 | **-** | 29 |
| **Total** | **32** | 209 | **32** | 209 |
| **(d) Minimum expenditure on exploration tenements on which the Group has title** | | | | |
| Within one year | **580** | 470 | **390** | 390 |
| **Total** | **580** | 470 | **390** | 390 |
| **(e) Capital expenditure commitments** | | | | |
| Capital expenditure commitments contracted for: | | | | |
| Within one year | **697** | 482 | **697** | 482 |
| **Total** | **697** | 482 | **697** | 482 |

# 29 Commitments and contingencies *(cont.)*

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **(f) Finance leases** | | | | |
| Commitments in relation to finance leases for the purchases of equipmennt are as follows: | | | | |
| Within one year | **2,169** | 2,064 | **2,169** | 2,064 |
| One to five years | **2,428** | 4,344 | **2,428** | 4,344 |
| Minimum lease payments | **4,597** | 6,408 | **4,597** | 6,408 |
| Less future finance charges | **454** | 898 | **454** | 898 |
| **Total lease liabilities** | **4,143** | 5,510 | **4,143** | 5,510 |
| **Representing** | | | | |
| Current | **1,871** | 1,614 | **1,871** | 1,614 |
| Non-current | **2,272** | 3,896 | **2,272** | 3,896 |
| **Total lease liabilities** | **4,143** | 5,510 | **4,143** | 5,510 |

The interest rate implicit in the various leases vary from 6.7% to 11%.

### *Oued Amizour Zinc Project*

In February 2006, the Company signed a joint venture agreement in respect of the Oued Amizour Zinc Project with Entreprise Nationale des Produits Miniers Non Ferreux et des Substances Utiles (ENOF) an Algerian Government company involved in exploration and mining activities. The Company agreed to manage and finance the joint venture until a decision to mine.

### *Finders fee*

A second tranche of a finder's fee is payable to a non-related party and linked to the commencement of commercial production from the first producing mine established in respect of the Oued Amizour Zinc Project. The amount payable will be US$62,500 which will be converted into the AUD 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.

### *Bank guarantees – Angas Zinc Mine*

As at 31 December 2009 the Company had lodged bank guarantees having a face value of $5.0 million with PIRSA.

### *Litigation*

As at the date of this report, the Company is not involved in any litigation.

# 30 Events after the Balance Sheet date

During the period, the Company announced the appointment of Mr Greg Cochran to the role of Chief Executive Officer, in which role he commenced on 18 January 2010. Following his commencement, primary responsibility for the day-to-day operations of the Company has been formally delegated by the Board to Mr Cochran in his capacity as Chief Executive Officer. This delegation is subject to transitional arrangements pursuant to which Dr Moriarty will progressively withdraw from his executive role within the Company to take on a purely non-executive Chairman's role.

On 21 January 2010, a total of 2,200,000 unlisted options were issued to various Company employees (including Mr Cochran, pursuant to the terms of his employment contract) as follows:

- 500,000 unlisted options with an exercise price of $1.25 and an expiry date of 20 January 2015;
- 1,000,000 unlisted options with an exercise price of $1.17 and an expiry date of 20 January 2015;
- 600,000 unlisted options with an exercise price of $1.12 and an expiry date of 20 January 2013; and
- 100,000 unlisted options with an exercise price of $1.08 and an expiry date of 20 January 2013.

No other events or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations or the state of affairs of the Group in future financial years that have not been otherwise disclosed in this report.