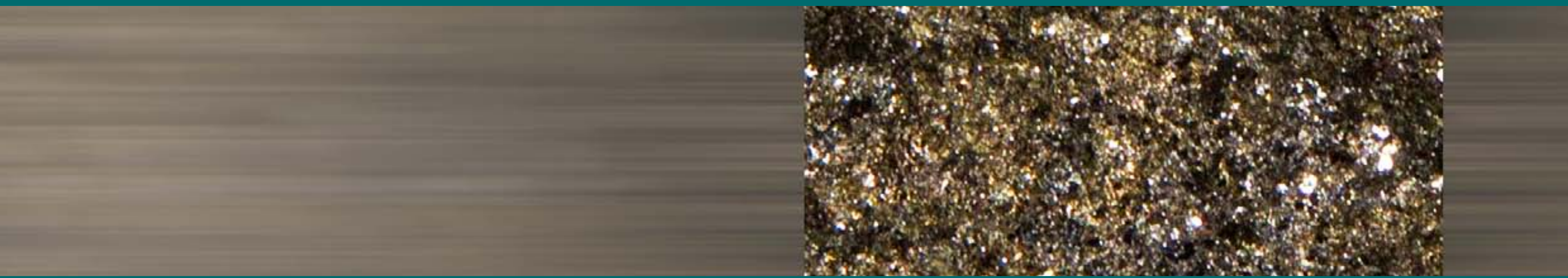
TERRAMIN AUSTRALIA LIMITED

ABN 67 062 576 238

and Controlled Entities



# INTERIM FINANCIAL REPORT

## For the Six Months Ended **30 June 2011**

### Contents

# Results for Announcement to the Market *for the Six Months Ended 30 June 2011*

## APPENDIX 4D

### Group results

| | 30 June 2011 $'000 | 30 June 2010 $'000 | Change % |
|---|---|---|---|
| Revenue from ordinary activities | **25,545** | 27,488 | (7) |
| Loss after tax attributable to equity owners of the Company - before non-controlling interests | **(7,232)** | (5,473) | (32) |
| Loss after tax attributable to equity owners of the Company - after non-controlling interests | **(7,930)** | (7,816) | (1) |

### Dividends/distributions

| | Amount per security | Franked amount per security |
|---|---|---|
| **2011 interim dividend** | **Nil** | **Nil** |
| 2010 interim dividend | Nil | Nil |

### Net Tangible Assets Per Share

| | 30 June 2011 $/share | 30 June 2010 $/share |
|---|---|---|
| Net tangible assets per share | **0.43** | 0.50 |

The commentary on the results for the period is contained in the Directors' Report. This Interim Financial Report is to be read in conjunction with the 2010 Annual Financial Report.

# ***Directors' Report*** *for the Six Months Ended 30 June 2011*

Your Directors submit their report on the consolidated entity comprising Terramin Australia Limited (the Company or Terramin) and its controlled entities (the Group) for the six months ended 30 June 2011 and the review report thereon. Terramin is a public company, limited by shares, that is incorporated and domiciled in Australia.

This report should be read in conjunction with the Company's 2010 Annual Financial Report.

## BOARD OF DIRECTORS

The following persons were Directors of the Company during the interim period up to and including the date of this report (unless stated otherwise):

| | |
|---|---|
| Mr R Bryan Davis | *Non-Executive Chairman* |
| Dr Kevin C Moriarty | *Managing Director* |
| Mr Michael H Kennedy | *Non-Executive Director* |
| Mr Steven A J Bonett | *Non-Executive Director* |
| Mr Peter Zachert | *Non-Executive Director* |
| Mr Robert W Jones | *Non-Executive Director* (Retired 30 June 2011) |
| Mr Xie Yaheng | *Non-Executive Director* |

## REVIEW OF OPERATIONS

### Principal Activities

The principal activities of the Group during the period were to continue to focus on the mining, development of and exploration for base metals (in particular zinc and lead) and other economic mineral deposits.

### Review of Operations

During the period, the Company focused on optimising the operation of its Angas Zinc Mine in South Australia and assisting its partners with their review of the definitive feasibility study of the Tala Hamza deposit in the Oued Amizour Zinc Project in Algeria. The Company also engaged in the exploration, evaluation and development of base metal projects in Australia and Algeria with a focus on zinc. Highlights for each of the Company's major projects are reported below.

### 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 with the remaining 35% held by two Algerian government owned companies: Enterprise Nationale des Produits Miniers Non-Ferreux et des Substances Utiles Spa (ENOF) (32.5%) and Office National de Recherche Géologique et Minière (ORGM) (2.5%).

WMZ was formed following a resolution of the State Participation Council (CPE) to create a joint venture between ENOF and Terramin for the development and mining of the Tala Hamza zinc-lead deposit.

The Tala Hamza deposit is located in the 125km$^2$ Oued Amizour tenement (Exploration Permit 5225PE) which also contains a number of drilled zinc prospects in addition to the Tala Hamza deposit. The Exploration Permit (commonly known as the Oued Amizour Project) was granted to WMZ on 27 August 2006 for an initial term of 3 years, renewed for another 2 years and is now current until 26 August 2011. An application for a renewal for an additional 2 years has been submitted under the Algerian Mining Act and is currently awaiting approval.

The Company committed to spend a minimum of US$6.6m up to decision to mine and has pre-emptive rights over the remaining 35% of the shareholding in WMZ which is held by ENOF and ORGM. ENOF and ORGM have an obligation to fund their share of project expenditure when the decision to mine is taken. As at 30 June 2011, US$39.9 million has been spent by the Company on the project. This exceeds the initial commitment as the scale and complexity of the proposed mining operation has increased significantly.

Considerable progress was made on the project review during the interim period with regular, positive discussions between WMZ joint venture partners concerning the regulatory approval process being undertaken.

Progress was also made on specific areas of the project such as:

- Preliminary portal design for the access declines being prepared based on a detailed geology and structure studies by WMZ;
- Investigation undertaken to further analyse the performance, practical application and safety of roadheaders in comparison to drill and blast methods for the purpose of mine development;
- Up-skilling of the workforce to prepare for the project with a number of Algerian employees selected for numerous training programmes and four key WMZ members seconded to Adelaide for an intensive training programme.

### Oued Amizour Exploration *(Terramin 65%)*

There were some promising results returned from the four drill holes completed under a reconnaissance drilling programme at the Bouzenan prospect, located 3km south-east of Tala Hamza deposit. The holes intersected lead dominant mineralisation beneath outcropping sulphide veins. Further investigation is

## Directors' Report *for the Six Months Ended 30 June 2011 (cont.)*

required to determine the continuity of the mineralisation. A regional stream sediment programme designed to cover the whole of the Oued Amizour tenement is ongoing.

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

The Angas Zinc Mine is the core operating asset of the Company and is located 2km outside the town of Strathalbyn, 60km from Adelaide. The 400,000 tonne per annum mine, which achieved its nameplate capacity in the December quarter of 2009, produces zinc and lead-copper-silver-gold concentrates. There is a life of mine off-take agreement with JP Morgan Metals and Concentrates LLC (JP Morgan) for zinc concentrate and a five year off-take agreement with Nyrstar Sales and Marketing NV for lead concentrate.

Ore production was below capacity largely due to mobile equipment failures and limited access to stopes as a result of pastefill issues. These issues were rectified towards the end of the period as measures implemented to improve operational performance began to take effect. The Angas Zinc Mine achieved the following results during the period:

| Summary of Production and Cash Costs | 6 Months Jun 2011 |
|---|---|
| **PRODUCTION STATISTICS** | |
| **Ore** | |
| Total Ore Mined (t) | **194,133** |
| Total Ore Treated (t) | **193,348** |
| **Zinc Concentrate** | |
| Concentrate (t) | **19,177** |
| Payable Zinc (t) | **8,139** |
| **Lead Concentrate** | |
| Concentrate (t) | **7,834** |
| Payable Lead (t) | **3,958** |
| Payable Copper (t) | **65** |
| Payable Silver (oz) | **128,234** |
| Payable Gold (oz) | **1,573** |
| **C1 CASH COST & OPERATING MARGIN (US$/lb payable zinc)** | |
| **Average Realised Price** | **105** |
| **C1 Cash Costs** | |
| Production Costs | **105** |
| Realisation Costs | **39** |
| Net By-product Credits | **(79)** |
| **C1 Cash Cost** | **65** |
| **Cash Operating Margin** | **40** |

Drill hole analyses from the Company's recently discovered Sunter Shoot, located towards the southern end of the Angas mining lease, were progressively announced to the ASX over the period. Results for these 13 holes showed zones of high-grade mineralisation within a broad lower grade envelope extending to the surface. The mineralisation is open in several directions, particularly at depth. A follow-up drill programme has commenced for the purpose of defining a large mineable resource.

### Angas Zinc Mine - Ore Reserve and Mineral Resources *(as at 30 June 2011)*

A revised estimate of Ore Reserves and Mineral Resources at the Angas Zinc Mine, based on data available as at 30 June 2011, has been prepared by the staff of Terramin Australia Limited. The estimate is prepared and reported in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves, December 2004 (JORC code).

The new estimate utilises the resource model prepared in May 2011 and incorporates additional drilling and progressive experience from mining.

A summary of results is presented in the table below:

#### Ore Reserves as at 30th June 2011

| | Mt | %Zn | %Pb | %Cu | Ag g/t | Au g/t |
|---|---|---|---|---|---|---|
| Probable | 1.29 | 7.22 | 2.87 | 0.22 | 31 | 0.50 |
| **Total** | **1.29** | **7.22** | **2.87** | **0.22** | **31** | **0.50** |

#### Mineral Resources as at 30th June 2011

| | Mt | %Zn | %Pb | %Cu | Ag g/t | Au g/t |
|---|---|---|---|---|---|---|
| Indicated | 0.57 | 4.44 | 1.69 | 0.14 | 18 | 0.36 |
| Inferred | 0.27 | 3.1 | 1.5 | 0.1 | 20 | 0.3 |
| **Total** | **0.84** | **4.0** | **1.6** | **0.1** | **19** | **0.3** |

Notes:

1. The estimate is based on the resource model as at 15th May 2011 with the Reserve cut-off date as at 30th June 2011.
2. Indicated Resource and Probable Reserve grades are quoted at two decimal places (except silver). Inferred Resource grades and totals including Inferred are rounded to one decimal place (except silver). All tonnages are rounded to the nearest 10,000 tonnes.
3. The Indicated Resource is exclusive of those Resources converted to Probable Reserve.
4. Total depletion by mining in the period 1st July 2010 to 30th June 2011 was 380,000 tonnes.
5. Metal prices (USD) used for the Reserve estimate are in line with Bloomberg's 2012 Consensus Forecast (May 2011) Zn 2,450/t, Pb 2,650/t Cu 10,062/t, Ag 34/oz, Au 1,499/oz. An exchange rate of USD/AUD 0.98 was used.

## Directors' Report *for the Six Months Ended 30 June 2011 (cont.)*

6. Recoveries used in the Reserve estimate are Zn 75%, Pb 71%, Cu 72%, Ag 51%, Au 79%.
7. Resource modelling assumptions are essentially unchanged from the previous estimate in April 2010 with the following exceptions:
   a. Two additional diamond drill holes (giving a total of 266 holes) and information from underground mining and development has been utilised, leading to some further revisions to the geological model.
   b. Extensive underground mapping and additional sample data obtained from channel samples and from sludge drilling was used to assist with defining mineralisation wireframes. The analytical data obtained from this sampling was not used in the Mineral Resource estimate.
8. Reserve estimation assumptions are unchanged from the last estimate in June 2010 with the following exceptions:
   a. A cut-off grade of 4.0% Pb+Zn was used for stoping (previously 3.9%). A cut-off grade of 2.5% Pb+Zn (unchanged) was used for development, where this development was required to access stoping areas of a higher grade.

*The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr Eric Whittaker. The information that relates to Ore Reserves is based on information compiled by Mr Ian Holman. Mr Whittaker is a Member of The Australasian Institute of Mining and Metallurgy and Mr Holman is a Member of the Institute of Materials, Minerals and Mining. Mr Whittaker is Principal Resource Geologist and Mr Holman is Chief Engineer and 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 they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves'. Mr Whittaker and Mr Holman consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

### Fleurieu Exploration Project *(Terramin 100%)*

The Fleurieu Exploration Project comprises a contiguous group of four tenements covering an area of 1,032km$^2$. These are Bremer (EL3641), Hartley (EL3792), Currency Creek (EL4210) and Langhorne Creek (EL4466).

Results from an extensive time-domain electromagnetic (VTEM) survey conducted in 2010 have identified conductive anomalies of interest for lead-zinc, copper and gold. Prospect scale modelling and ranking of these conductive anomalies is underway. Soil and calcrete samples were collected over several of the anomalies to test for surface expressions, particularly where previous explorers reported anomalous lead-zinc and copper. These samples will undergo laboratory analysis in the subsequent period.

### Menninnie Zinc Project *(Terramin 100%)*

The Menninnie Zinc Project comprises a contiguous group of four tenements covering an area of 1,609km$^2$. These are Menninnie Dam (EL3640), Nonning (EL3535), Kolendo (EL4285) and Taringa (EL4669).

On 26 October 2010, the Company announced to the ASX that it had agreed to acquire a 76% interest in the Menninnie Dam tenement from Minerals and Metals Group (MMG) subject to approval by the Minister pursuant to the Mining Act (SA) 1971. This agreement was completed with the transfer of licence taking place on 21 of January 2011. A Native Title Mining Agreement for exploration on Menninnie Dam and Nonning was registered with PIRSA on 8 February 2011.

The Company completed a revised resource estimate on the Menninnie Central deposit, approximately doubling the tonnage and increasing contained metal by 59% over the previous estimate (December 2007). A new Inferred Resource of 7.7 million tonnes at 5.7% Pb+Zn and 27g/t Ag was announced to the ASX on 1 March 2011.

On 21 February 2011, Menninnie Metals Pty Ltd was granted an exploration licence for the Taringa region. This area covers 988km2 area extending north and east from the Kolendo and Nonning tenements. The tenement is considered prospective for deposits of gold and/or base metals in epithermal vein systems within and beneath the Gawler Range volcanics.

On 24 June 2011, an agreement was reached with Minotaur Operations Pty Ltd (Minotaur) for Terramin to acquire a 100% interest in the Nonning tenement. Completion of this transaction is still subject to approval by the Minister pursuant to the Mining Act (SA) 1971. The Nonning tenement had previously been subject to an earn-in agreement between Terramin and Minotaur whereby Terramin could earn an interest of up to 70%. The acquisition of 100% of the prospective group of tenements along trend from the Menninnie Dam lead-zinc deposits is consistent with the Company's strategy of growing its production pipeline through focused exploration.

# Directors' Report *for the Six Months Ended 30 June 2011 (cont.)*

## Environmental Management

The Company continued to make strong progress towards ensuring the level of water in its Tailings Storage Facility (TSF) is reduced to comply with the levels detailed in the mine's Mining and Rehabilitation Plan. There were significant improvements in treatment facility performance which, combined with placement of tailings backfill to underground stopes, controlled overall water levels in the TSF. Additional treatment facilities and disposal methods for treated water will continue to be investigated and reviewed in partnership with regulators into the second half of the year.

## Corporate

During the period, the Company issued 10,000,000 shares to China Non-Ferrous Metals Industry's Foreign Engineering & Construction Co., Ltd (NFC) at $0.62 a share. The issue was in relation to the first $6.2 million tranche of funding under the terms of the $50 million subscription agreement with NFC.

An additional 680,016 shares were issued to other parties during the period. Of these, 512,494 shares were issued for the satisfaction of interest due on outstanding convertible notes. The remaining 167,522 shares were issued to an employee in accordance with their employment terms.

Total options on issue by the Company reduced substantially due to the cancellation of 9,796,630 options. Of the options cancelled, 7,754,630 were held by Investec Bank (Australia) Limited and were cancelled in accordance with the agreed terms of a debt restructure completed in August 2010 and in accordance with the resolution carried out at the Company's 2011 Annual General Meeting. A further 2,042,000 director and employee options expired and were cancelled accordingly. The Company issued a total of 600,000 options to employees in accordance with certain employment terms.

## GROUP TENEMENT LISTING

| Title Name and Location | Licence Number | Licence Area | Expiry Date | Terramin Interest | Minimum Expenditure Commitment |
|---|---|---|---|---|---|
| Angas - South Australia | ML 6229 | 87.97 ha | 16/08/2016 | 100% | Not applicable |
| Bremer - South Australia [1] | EL 3641 | 457 km² | 26/10/2011 | 100% | $390,000 per annum |
| Currency Creek - South Australia [1] | EL 4210 | 174 km² | 23/11/2012 | 100% | Almalgamated with EL 3641 |
| Hartley - South Australia [1] | EL 3792 | 126 km² | 3/06/2012 | 100% | Almalgamated with EL 3641 |
| Langhorne Creek - South Australia [1] | EL 4466 | 275 km² | 18/04/2013 | 100% | Almalgamated with EL 3641 |
| | | | | WMZ Interest | |
| Oued Amizour - Algeria [2] | 5225PE | 12,276 ha | 26/08/2011 | 100% | Not applicable |
| | | | | Menninnie Interest | |
| Menninnie Dam - South Australia [3] | EL 3640 | 101 km² | 26/10/2011 | 100% | $80,000 per annum |
| Nonning - South Australia [4] | EL 3535 | 312 km² | 29/03/2011 | 100% | $60,000 per annum. |
| Kolendo - South Australia | EL 4285 | 208 km² | 26/07/2012 | 100% | $50,000 per annum |
| Taringa - South Australia | EL 4669 | 988 km² | 20/02/2013 | 100% | $125,000 per annum |

1. Amalgamated expenditure applied for on 20/06/2011.
2. Application lodged for renewal of licence on 23/06/2011.
3. Application at PIRSA for a subsequent licence lodged 29/07/2011.
4. Application at PIRSA for a subsequent licence lodged 28/01/2011.

# Directors' Report *for the Six Months Ended 30 June 2011 (cont.)*

## FINANCIAL

The consolidated loss of the Group after providing for income tax and before non-controlling interests was $7.2 million for the half year ended 30 June 2011 (2010: $5.5 million). This result was generated from revenues of $25.5 million, compared to $27.5 million recorded for the corresponding period last year.

The Angas Zinc Mine produced earnings before interest, tax and depreciation (EBITDA) for the half year ended 30 June 2011 of $6.1 million. The EBITDA of $6.1 million is lower than the corresponding period last year (2010: $9.7 million), primarily as a result of lower grade ore being accessed during the period generating lower payable metal sales, and a lower realised AUD zinc price due to the appreciation of the Australian currency. Overall mine performance for the period was in line with the prior period.

It is anticipated that higher-grade mining stopes will be accessed during the second half of the year, which should generate improved financial outcomes.

Depreciation and amortisation has increased by approximately 21% to approximately $10.4 million (2010: $8.6 million). This increase has been partially offset by realised gains on foreign exchange hedging, together with unrealised gains on the revaluation of US Dollar denominated convertible notes.

Interest expense of $1.6 million for the half year is in line with corresponding period last year.

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

## SUBSEQUENT EVENTS

Subsequent to the end of the period, the Group received a second tranche of funding ($4.6 million) under the terms of the $50 million subscription agreement with NFC. Under this tranche, 12,300,000 shares were issued to NFC at $0.37 a share.

On 15 August 2011 an electrical incident occurred in the high voltage switch room of the SAG mill at the Angas Zinc Mine. Following the successful completion of off-site remedial work on the high voltage switch room of the SAG mill, the processing plant was recommissioned on 28 August 2011 and is now operating at capacity.

The period of plant downtime has allowed for a significant surface ore stockpile to be accumulated, thereby substantially de-risking the mining operations. However, since it is not expected that the short-term loss of zinc concentrate production will be fully recovered over the balance of the 2011 year, the Company is reducing its full year production forecast by 4% to 45,000 tones of zinc concentrate.

The Company expects that it will be able to meet the full year forecast for lead/precious metal concentrate of 18,500 tonnes, which currently contributes over 50% of net revenue under prevailing market prices.

An investigation into the cause of the electrical incident is also progressing as a priority. No injuries were sustained in the incident.

In addition, to offset the cashflow impact resulting from the period of plant downtime, the Company has agreed to the deferral of the $3m principal repayment due in August 2011 to 29 December 2011 with Investec Bank (Australia) Limited. The negotiations are finalised and a written agreement has been signed by both parties to defer the principal repayment. Final documentation is to be put in place by 8 September 2011.

On 26 August 2011 the Company received notice from Transaminvest S.A. regarding a breach of the post completion obligations associated with the US$10m 5 year unlisted convertible notes, issued in September 2009 with a minimum conversion price of AU$1.70. The notice alleges that due to the stated breach the Company is in default under the terms of the respective agreements and thereby a right to redemption exists. The notice indicated to the Company that Transaminvest S.A. is reserving its rights in respect of the stated breach (it does not constitute a notice of redemption).

The Company is progressing the assessment of its position in addition to entering into formal commercial discussions with Transaminvest S.A. and taking the required action to rectify the stated breach as soon as practical.

There have been no further significant events subsequent to 30 June 2011 impacting on the interim financial report.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the six months ended 30 June 2011 can be found on page 7 and forms part of the Directors' Report.

Signed in Adelaide the 31st day of August 2011 in accordance with a resolution of the Board of Directors.

Kevin M. Moriarty

**Kevin C Moriarty**
*Managing Director*

**Peter Zachert**
*Director*

# Auditor's 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 review for the interim period ended 30 June 2011, there have been:

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

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

KPMG

KPMG

Derek Meates
Partner

Adelaide

31 August 2011

KPMG , an Australian partnership and a member firm of the KPMG network
of independent member firms affiliated with KPMG International, a Swiss cooperative.

# Consolidated Interim Income Statement *for the Six Months Ended 30 June 2011*

| | Note | 30 June 2011 $'000 | 30 June 2010 $'000 |
|---|---|---|---|
| Revenue | | **25,545** | 27,488 |
| Other income | *4* | **5** | 11 |
| Raw materials, consumables and other direct costs | | **(20,920)** | (19,225) |
| Change in inventories of finished goods and WIP | | **1,713** | 1,427 |
| Employee expenses | | **(1,539)** | (1,604) |
| Depreciation and amortisation | *5a* | **(10,360)** | (8,557) |
| Share option expense | | **(48)** | (654) |
| Other expenses | | **(1,501)** | (1,312) |
| **Loss before net financing costs and income tax** | | **(7,105)** | (2,426) |
| Finance income | *4* | **3,994** | 2,486 |
| Finance costs | *4* | **(4,121)** | (5,533) |
| **Net finance costs** | | **(127)** | (3,047) |
| **Loss before income tax** | | **(7,232)** | (5,473) |
| Income tax expense | | **-** | - |
| **Loss for the period attributable to equity holders of the Company** | | **(7,232)** | (5,473) |

| **Earnings per share attributable to the ordinary equity holders of the Company:** | | **2010** | 2009 |
|---|---|---|---|
| Basic earnings/(loss) per share - (cents per share) | *12* | **(4.15)** | (3.42) |
| Diluted earnings/(loss) per share - (cents per share) | *12* | **(4.15)** | (3.42) |

The income statement is to be read in conjunction with the notes to the financial statements

# Consolidated Interim Statement of Comprehensive Income *for the Six Months Ended 30 June 2011*

| | Note | 30 June 2011 $'000 | 30 June 2010 $'000 |
|---|---|---|---|
| **Loss for the period** | | **(7,232)** | (5,473) |
| **Other comprehensive income/(loss)** | | | |
| Foreign currency translation differences for foreign operations | | **(49)** | 235 |
| **Other comprehensive income/(loss) for the period, net of income tax** | | **(49)** | 235 |
| **Total comprehensive loss for the period attributable to equity holders of the Company** | | **(7,281)** | (5,238) |

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements

# Consolidated Interim Statement of Financial Position *as at 30 June 2011*

| | Note | 30 June 2011 $'000 | Restated 31 December 2010 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 5a | **79,365** | 82,136 |
| Exploration and evaluation | 5b | **48,532** | 42,956 |
| Investments in equity accounted investees | 10 | **-** | 1,079 |
| Derivative financial instruments | 8 | **182** | - |
| **Total non-current assets** | | **128,079** | 126,171 |
| Inventories | 6 | **4,777** | 2,733 |
| Derivative financial instruments | 8 | **1,241** | 503 |
| Other assets | | **168** | 262 |
| Trade and other receivables | | **5,567** | 7,791 |
| Cash and cash equivalents | | **9,601** | 9,550 |
| **Total current assets** | | **21,354** | 20,839 |
| **Total assets** | | **149,433** | 147,010 |
| **Equity** | | | |
| Share capital | 9 | **126,425** | 120,014 |
| Reserves | | **3,887** | 3,888 |
| Accumulated losses | | **(68,803)** | (60,873) |
| **Total equity attributable to equity holders of the Company** | | **61,509** | 63,029 |
| **Non-controlling interest** | | **14,783** | 14,085 |
| **Total equity** | | **76,292** | 77,114 |
| **Liabilities** | | | |
| Loans and borrowings | 7 | **36,778** | 39,364 |
| Derivative financial instruments | 8 | **447** | - |
| Provisions | | **5,707** | 5,370 |
| **Total non-current liabilities** | | **42,932** | 44,734 |
| Loans and borrowings | 7 | **16,992** | 14,608 |
| Trade and other payables | | **11,114** | 9,281 |
| Derivative financial instruments | 8 | **890** | 116 |
| Provisions | | **1,213** | 1,157 |
| **Total current liabilities** | | **30,209** | 25,162 |
| **Total liabilities** | | **73,141** | 69,896 |
| **Total equity and liabilities** | | **149,433** | 147,010 |

The statement of financial position is to be read in conjunction with the notes to the financial statements

## *Consolidated Interim Statement of Changes In Equity* *for the Six Months Ended 30 June 2011*

| | Share capital $'000 | Share option reserve $'000 | Translation reserve $'000 | Accumulated losses $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2011 | 120,014 | 8,920 | (5,032) | (60,873) | 63,029 | 14,085 | 77,114 |
| **Total comprehensive income for the period** | | | | | | | |
| Loss for the period | - | - | - | (7,232) | (7,232) | - | (7,232) |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation differences | - | - | (49) | - | (49) | - | (49) |
| Total other comprehensive income | - | - | (49) | - | (49) | - | (49) |
| Total comprehensive income for the period | - | - | (49) | (7,232) | (7,281) | - | (7,281) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | |
| Issue of ordinary shares | 6,430 | - | - | - | 6,430 | - | 6,430 |
| Share issue costs | (19) | - | - | - | (19) | - | (19) |
| Share options expensed / cancelled | - | 48 | - | - | 48 | - | 48 |
| Total contributions by and distributions to owners | 6,411 | 48 | - | - | 6,459 | - | 6,459 |
| **Changes in ownership interests in subsidiaries that do not result in a loss of control** | | | | | | | |
| Non-controlling interest | - | - | - | (698) | (698) | 698 | - |
| Total changes in ownership interests in subsidiaries | - | - | - | (698) | (698) | 698 | - |
| Balance at 30 June 2011 | 126,425 | 8,968 | (5,081) | (68,803) | 61,509 | 14,783 | 76,292 |

The statement of changes in equity is to be read in conjunction with the notes to the financial statements

## Consolidated Interim Statement of Changes In Equity *for the Six Months Ended 30 June 2010*

| | Share capital $'000 | Share option reserve $'000 | Translation reserve $'000 | Accumulated losses $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2010 | 113,667 | 8,096 | (2,524) | (48,766) | 70,473 | 11,854 | 82,327 |
| **Total comprehensive income for the period** | | | | | | | |
| Loss for the period | - | - | - | (5,473) | (5,473) | - | (5,473) |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation differences | - | - | 235 | - | 235 | - | 235 |
| Total other comprehensive income | - | - | 235 | - | 235 | - | 235 |
| Total comprehensive income for the period | - | - | 235 | (5,473) | (5,238) | - | (5,238) |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | |
| Issue of ordinary shares | 5,654 | - | - | - | 5,654 | - | 5,654 |
| Share issue costs | (14) | - | - | - | (15) | - | (15) |
| Share options exercised | 78 | - | - | - | 78 | - | 78 |
| Transfer from option reserve on exercise | 14 | (14) | - | - | - | - | - |
| Share options expensed / cancelled | - | 654 | - | - | 654 | - | 654 |
| Total contributions by and distributions to owners | 5,732 | 639 | - | - | 6,370 | - | 6,370 |
| **Changes in ownership interests in subsidiaries that do not result in a loss of control** | | | | | | | |
| Non-controlling interest | - | - | - | (2,342) | (2,342) | 2,342 | - |
| Total changes in ownership interests in subsidiaries | - | - | - | (2,342) | (2,342) | 2,342 | - |
| Balance at 30 June 2010 | 119,399 | 8,735 | (2,289) | (56,582) | 69,263 | 14,196 | 83,459 |

The statement of changes in equity is to be read in conjunction with the notes to the financial statements

## *Consolidated Interim Statement of Cash Flows* *for the Six Months Ended 30 June 2011*

| | **30 June 2011 $'000** | 30 June 2010 $'000 |
|---|---|---|
| **Cash from operating activities:** | | |
| Receipts from customers | **28,593** | 26,782 |
| Payments to suppliers and employees | **(23,346)** | (21,172) |
| Financing costs and interest paid | **(1,662)** | (2,008) |
| Interest received | **320** | 267 |
| **Total cash from operating activities** | **3,905** | 3,869 |
| | | |
| **Cash flows from investing activities:** | | |
| Proceeds from the sale of fixed assets | **-** | 12 |
| Acquisition of property, plant and equipment | **(2,644)** | (945) |
| Mine construction & development expenditure | **(5,130)** | (4,145) |
| Exploration and evaluation expenditure | **(4,072)** | (7,461) |
| **Net cash (used in) investing activities** | **(11,846)** | (12,539) |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from the issue of share capital | **6,200** | 78 |
| Realised derivative gains/(losses) | **1,065** | - |
| Payment of transaction costs | **(18)** | (14) |
| Proceeds from borrowings | **1,900** | - |
| Repayment of borrowings | **(1,047)** | (914) |
| **Net cash from (used in) financing activities** | **8,100** | (850) |
| | | |
| Net increase/(decrease) in cash and cash equivalents | **159** | (9,520) |
| Net foreign exchange differences | **(108)** | 586 |
| Cash and cash equivalents at beginning of half year | **9,550** | 21,904 |
| **Cash and cash equivalents at end of half year** | **9,601** | 12,970 |

The statement of cash flows is to be read in conjunction with the notes to the financial statements

**Condensed Notes** *to the Consolidated Interim Financial Statements for the Six Months Ended 30 June 2011*

# NOTE 1: REPORTING ENTITY

Terramin Australia Limited is a listed public company, incorporated and domiciled in Australia. The consolidated interim financial report as at and for the six months ended 30 June 2011 covers the economic entity of Terramin Australia Limited and its controlled entities (together referred to as the "Group").

# NOTE 2: BASIS OF PREPARATION

### (a) Statement of Compliance

The consolidated interim financial report is a general purpose financial report that has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001(Cth)*.

The consolidated interim financial report was authorised for issue by the Directors on 31 August 2011.

### (b) Reporting Basis

The interim financial report does not include full disclosures of the type normally included in an annual financial report, and therefore it is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2010, and any public announcements made by the Company during the interim reporting period in accordance with continuous disclosure requirements arising under the *Corporations Act 2001(Cth)*.

Where required by accounting standards, comparative figures have been reclassified to conform with changes in presentation in the current interim financial period.

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

This report has been prepared in Australian dollars on the basis of historical costs, except for derivative financial instruments which are measured at fair value.

### (c) Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2010.

### (d) 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 the 2011 interim period the Group realised a loss of $7.2 million, increasing accumulated losses to $68.8 million. As at 30 June 2011 the Group has total equity of $76.3 million and the Group's current liabilities exceeded its current assets by $8.9 million. The net asset deficiency is primarily due to the reclassification of the US$10m convertible notes as a current liability (refer note 2 (e)). The Company is in the process of addressing the cause of the reclassification in order to rectify the net asset deficiency. 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.

To offset the cashflow impact resulting from the recent electrical incident encountered in the SAG mill in August 2011, the Company has agreed to the deferral of the $3m principal repayment due in August 2011 to 29 December 2011 with Investec Bank (Australia) Limited. The negotiations are finalised and a written agreement has been signed by both parties to defer the principal repayment. Final documentation is to be put in place by 8 September 2011.

On 26 August 2011 the Company received notice from Transaminvest S.A. regarding a breach of the post completion obligations associated with the US$10m 5 year unlisted convertible notes, issued in September 2009 with a minimum conversion price of AU$1.70. The notice alleges that due to the stated breach the Company is in default under the terms of the respective agreements and thereby a right to redemption exists. The notice indicated to the Company that Transaminvest S.A. is reserving its rights in respect of the stated breach (it does not constitute a notice of redemption).

The Company is progressing the assessment of its position in addition to entering into formal commercial discussions with Transaminvest S.A. and taking the required action to rectify the stated breach as soon as practical.

## Condensed Notes *to the Consolidated Interim Financial Statements for the Six Months Ended 30 June 2011 (cont.)*

## NOTE 2: BASIS OF PREPARATION *(cont.)*

The directors note that these events indicate material uncertainty, which may cast doubt on the ability of the Company to continue as a going concern without further cash injections by way of equity or debt. Subject to market conditions, the Group has the ability to raise additional equity and debt finance as required and at the time of this report, the directors consider that the Group could raise cash by way of equity or debt to fund anticipated activities and meet financial obligations. Supporting this position is the $50m subscription agreement with NFC, which has an undrawn balance of $39.2m, with future drawdowns subject to relevant approvals if required. The directors will take the appropriate action to ensure these funds are available as and when they are required.

### (e) Classification of convertible notes

In light of the notice received from Transaminvest S.A. on 26 August 2011 whereby it alleges the Company is in default under the terms of the US$10m 5 year unlisted convertible notes, the Company has obtained further advice. This advice indicates that a letter received in July 2010 constitutes a notice of breach. Prior advice received by the Company had indicated otherwise. The Company's view is that the position as to whether it is in default is not free from doubt. However, on the basis of current legal advice the Company's view is that the prudent approach is to classify the US$10m of convertible notes (AU$9.3m) as a current liability at balance date and similarly reclassify the 31 December comparative (AU$9.8m) as current.

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in the consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 December 2010.

## NOTE 4: OTHER INCOME & EXPENSES

| | 30 June 2011 $'000 | 30 June 2010 $'000 |
|---|---|---|
| **Other income** | | |
| Rental Income | **5** | 11 |
| Realised commodity derivative gains [1] | **-** | - |
| **Total other income** | **5** | 11 |
| **Finance income** | | |
| Interest income | **138** | 228 |
| Foreign exchange gain on convertible notes [2] | **1,322** | 845 |
| Foreign exchange and commodity hedging gains [1] | **2,534** | 1,413 |
| **Total finance income** | **3,994** | 2,486 |
| **Finance costs** | | |
| Interest on convertibles notes | **575** | 691 |
| Interest on borrowings | **1,026** | 950 |
| Unwinding of discount on mine rehabilitation provision | **133** | 125 |
| Other borrowing costs | **487** | 485 |
| Unrealised foreign exchange loss on convertible notes [2] | **-** | 2,322 |
| Foreign exchange and commodity hedging losses | **1,900** | 960 |
| **Total finance costs** | **4,121** | 5,533 |

1. The 30 June 2010 amounts have been reclassified, being $795,000 from Other income - 'Realised commodity derivative gains' to Finance income - 'Foreign exchange and commodity hedging gains'.
2. At 30 June 2011, the Company had $25.05 million of USD denominated convertible notes on issue (30 June 2010: $25.05 million).

*Condensed Notes to the Consolidated Interim Financial Statements for the Six Months Ended 30 June 2011 (cont.)*

## NOTE 5a: PROPERTY, PLANT AND EQUIPMENT

| CONSOLIDATED | Freehold Land $'000 | Buildings and other infrastructure $'000 | Leasehold improvements $'000 | Plant and Equipment $'000 | Mining Property and Development $'000 | Construction in Progress $'000 | Mine Rehabilitation Assets $'000 | Total Property Plant & Equipment $'000 |
|---|---|---|---|---|---|---|---|---|
| Opening carrying amount | 2,818 | 90 | 23 | 41,459 | 34,644 | 313 | 2,789 | 82,136 |
| Additions | 2 | - | - | 34 | - | 7,616 | 66 | 7,718 |
| Transfers | - | 5 | - | 1,904 | 5,130 | (7,172) | - | (133) |
| Depreciation and amortisation | - | (12) | (6) | (5,122) | (4,850) | - | (370) | (10,360) |
| Foreign currency movement | - | - | - | 4 | - | - | - | 4 |
| **Carrying amount at the end of period** | **2,820** | **83** | **17** | **38,279** | **34,924** | **757** | **2,485** | **79,365** |

## NOTE 5b: EXPLORATION AND EVALUATION

| CONSOLIDATED | Exploration and Evaluation $'000 |
|---|---|
| Opening carrying amount | 42,956 |
| Additions | 4,322 |
| Transfers | 133 |
| Transfer from (to) equity accounted investee [1] | 1,079 |
| Foreign currency movement | 42 |
| **Carrying amount at the end of period** | **48,532** |

1. Refer to note 10.

## NOTE 6: INVENTORIES

| | **30 June 2011 $'000** | 31 December 2010 $'000 |
|---|---|---|
| Raw materials and consumables (at cost) | **2,704** | 2,372 |
| Work in progress - ore run of mine (at cost) | **252** | 141 |
| Finished goods (at net realisable value/cost) | **1,821** | 220 |
| Total inventories at the lower of cost and net realisable value | **4,777** | 2,733 |

**Condensed Notes** *to the Consolidated Interim Financial Statements for the Six Months Ended 30 June 2011 (cont.)*

## NOTE 7: LOANS AND BORROWINGS

| | 30 June 2011 $'000 | Restated 31 December 2010 $'000 |
|---|---|---|
| **Current** | | |
| Lease liabilities [1] | **1,680** | 1,768 |
| Bank loans - secured - Angas Zinc project [2] | **6,000** | 3,000 |
| Convertible Notes [3] | **9,312** | 9,840 |
| | **16,992** | 14,608 |
| **Non-current** | | |
| Lease liabilities [1] | **1,660** | 719 |
| Bank loans - secured - Angas Zinc project [2] | **16,102** | 18,835 |
| Convertible Notes [3] | **19,016** | 19,810 |
| | **36,778** | 39,364 |

1 Lease liabilities are effectively secured as rights to the leased assets revert to the lessor in the event of default.

2 The Company has a Corporate revolving $23 million loan facility provided by Investec Bank (Australia) Limited (IBAL). At balance date, there were two scheduled principal repayments over the next 12 months to 30 June 2012, $3m in August 2011 and $3m in February 2012. To offset the cashflow impact resulting from the recent electrical incident encountered in the SAG mill in August 2011, the Company has agreed to the deferral of the $3m principal repayment due in August 2011 to 29 December 2011 with Investec Bank (Australia) Limited. The negotiations are finalised and a written agreement has been signed by both parties to defer the principal repayment. Final documentation is to be put in place by 8 September 2011. There has been no further material changes to the facility since the 31 December 2010 Annual Report.

3 J.P. Morgan holds US $15,050,000 (AU$14.0m) in five year unlisted convertible redeemable notes issued by the Company, with a maturity date of 31 March 2013. A total of 512,494 shares were issued during the period in lieu of a cash interest payment of US$ 0.2 million.

An institutional investor holds $5 million in five year unlisted convertible issued by the Company having a maturity date of 17 September 2013.

Transaminvest S.A hold US$10.0 million (AU$9.3m) in 5 year unlisted convertible redeemable notes issued by the Company with a maturity date of 23 September 2014. The convertible notes have been classified as a current liability as at balance date and the comparative similarly reclassified. Refer to note 2 (e) and note 15 for further details.

Full details of the convertible notes are listed in the 2010 Annual Report. There has been no changes to the above facilities since the 2010 Annual Report.

## NOTE 8: DERIVATIVE FINANCIAL INSTRUMENTS

The Group is exposed to market risk in the form of commodity price risk, foreign currency exchange risk and interest rate risk. Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in commodity prices, foreign currency rates and interest rates. The carrying value of the derivative financial instruments of the Group are disclosed as follows:

| | 30 June 2011 $'000 | 31 December 2010 $'000 |
|---|---|---|
| **Current Assets** | | |
| Forward currency contracts [(a)] | **1,241** | 503 |
| | **1,241** | 503 |
| **Non-current Assets** | | |
| Forward currency contracts [(a)] | **182** | - |
| | **182** | - |
| **Current Liabilities** | | |
| Commodity contracts [(b)] | **890** | 116 |
| | **890** | 116 |
| **Non-current Liabilities** | | |
| Commodity contracts [(b)] | **447** | - |
| | **447** | - |

(a) In line with Company policy, the Group has a USD hedging programme in place in order to mitigate foreign exchange risk on USD denominated metal sales with fixed metal prices and forward contracts. At the end of the period, USD sold forward against the AUD totalled US$31.0 million at an average exchange rate of AUD:USD $1.00.

(b) At period end, the Group has price protection in place in respect of 4,000 tonnes of lead metal via a zero-cost collar implemented early in 2011, which provides price protection at US$2,315/t with upside price participation to the sold call strike of US$2,750/t. This is spread evenly over the forecast production during the months of April – November 2011, pricing July 2011 – February 2012, and equates to approximately 60% of forecast production over this period. An additional 210 tonnes has been fixed at a price of US$2,505/t via a sold forward contract.

In addition, in early 2011 the Group entered into AUD precious metal hedging via forward contracts protecting approximately 50% of forecast payable metal production until early 2013. At the end of the period, the Group has price protection in place in respect to 273,000 ounces of Silver forward sold at $US32.95/oz and 3,990 ounces of Gold forward sold at $US1,400/oz. These forward sales are spread evenly over the hedge period and represent 50% of forecast payable metal.

**Condensed Notes** *to the Consolidated Interim Financial Statements for the Six Months Ended 30 June 2011 (cont.)*

## NOTE 9: ISSUED CAPITAL

**Table of issued capital for the half year ended 30 June 2011:**

| Type of Share Issue | Number of Ordinary Shares on issue | Share price | Share Capital $'000 |
|---|---|---|---|
| **Opening Balance** | **167,315,574** | | **120,014** |
| Share placement | 10,000,000 | 0.62 | 6,200 |
| Shares issued to employee | 167,522 | 0.36 | 60 |
| Shares issued in lieu of interest | 512,494 | 0.33 | 170 |
| **Closing Balance** | **177,995,590** | | **126,444** |
| Share issue costs | | | (19) |
| **Issued Capital** | | | **126,425** |

**Table of issued capital for the half year ended 30 June 2010:**

| Type of Share Issue | Number of Ordinary Shares on issue | Share price | Share Capital $'000 |
|---|---|---|---|
| **Opening Balance** | **158,388,677** | | **113,667** |
| Shares issued on conversion of notes | 7,447,829 | 0.75 | 5,590 |
| Shares issued in lieu of interest | 85,392 | 0.75 | 64 |
| Exercise of options | 150,000 | 0.52 | 78 |
| **Closing Balance** | **166,071,898** | | **119,399** |
| Share issue costs | | | (14) |
| Transfer of option reserve to issued capital following option exercise | | | 14 |
| **Issued Capital** | | | **119,399** |

## NOTE 10: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | 30 June 2011 $'000 | 31 December 2010 $'000 |
|---|---|---|
| Investment in associate | - | 1,079 |
| | - | 1,079 |

During the period, Menninnie Metals Pty Ltd completed the acquisition of the Menninnie Dam tenement (EL 3640) from Minerals and Metals Group (MMG), increasing its ownership from 24% to 100%. Since 21 January 2011, Menninnie Metals Pty Ltd has taken over management of the tenement and subsequently the investment has been reclassified to exploration and evaluation.

*Condensed Notes to the Consolidated Interim Financial Statements for the Six Months Ended 30 June 2011 (cont.)*

## NOTE 11: 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.

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.

| | Australia | | Northern Africa | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2011 $'000** | 2010 $'000 | **2011 $'000** | 2010 $'000 | **2011 $'000** | 2010 $'000 |
| **Revenue** | | | | | | |
| External Customers | **25,545** | 27,488 | **-** | - | **25,545** | 27,488 |
| **Total Revenue** | **25,545** | 27,488 | **-** | - | **25,545** | 27,488 |
| **Results** | | | | | | |
| Depreciation and amortisation | **(10,360)** | (8,557) | **-** | - | **(10,360)** | (8,557) |
| **Loss before income tax** | **(7,232)** | (5,473) | **-** | - | **(7,232)** | (5,473) |
| Income tax expense | | | | | **-** | - |
| **Loss for the period attributable equity holders of the Company** | | | | | **(7,232)** | (5,473) |
| **Other disclosures** | | | | | | |
| Capital expenditure [1] | **10,307** | 6,225 | **1,733** | 6,296 | **12,040** | 12,521 |

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

**Condensed Notes** *to the Consolidated Interim Financial Statements for the Six Months Ended 30 June 2011 (cont.)*

## NOTE 12: EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share at 30 June 2011 was based on the net loss attributable to equity holders of the Company of $7.2 million (2010: loss of $5.5 million) and a weighted average number of ordinary shares outstanding during the period ended 30 June 2011 of 174,058,511 (2010: 160,255,040), calculated as follows:

| | 30 June 2011 $'000 | 30 June 2010 $'000 |
|---|---|---|
| Net loss for the half year | **(7,232)** | (5,473) |
| Issued ordinary shares | **177,995,590** | 166,071,898 |
| Weighted average number of ordinary shares | **174,058,511** | 160,255,040 |
| Basic loss per share (cents) | **(4.15)** | (3.42) |

### (b) Diluted earnings per share

The 2011 calculation of diluted earnings per share does not include weighted dilutive potential ordinary shares on issue, as to do so would have the effect of reducing the amount of the loss per share.

| | 30 June 2011 $'000 | 30 June 2010 $'000 |
|---|---|---|
| Net loss for the half year | **(7,232)** | (5,473) |
| Weighted average number of ordinary shares | **174,058,511** | 160,255,040 |
| Weighted average number of options | **-** | - |
| Weighed average number of shares and potential ordinary shares used in the calculation of diluted earnings per share | **174,058,511** | 160,255,040 |
| Diluted loss per share (cents) | **(4.15)** | (3.42) |

## NOTE 13: CONTINGENCIES & COMMITMENTS

No contingent assets or liabilities exist at the reporting date.

### (a) Capital expenditure commitments

| | 30 June 2011 $'000 | 31 December 2010 $'000 |
|---|---|---|
| Capital expenditure commitments contracted for: | | |
| Within 1 year | **1,741** | 275 |
| Total | **1,741** | 275 |

### (b) Finance leases

Commitments in relation to finance leases for the purchases of mining equipment are:

| | | |
|---|---|---|
| Within 1 year | **1,886** | 1,907 |
| Longer than 1 year and not longer than 5 years | **1,786** | 756 |
| Minimum lease payments | **3,672** | 2,663 |
| Less: Future Finance Charges | **332** | 176 |
| Total lease liabilities | **3,340** | 2,487 |
| Representing: | | |
| Current | **1,680** | 1,768 |
| Non-Current | **1,660** | 719 |
| | **3,340** | 2,487 |

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

## NOTE 14: RELATED PARTY TRANSACTIONS

There were no significant loans or related party transactions between key management personnel and the Company and its subsidiaries during or subsisting at the end of the interim period, other than remuneration arrangements which remain in place and are consistent with those disclosed in the 2010 Annual Report.

## NOTE 15: SUBSEQUENT EVENTS

Subsequent to the end of the period, the Group received a second tranche of funding ($4.6 million) under the terms of the $50 million subscription agreement with NFC. Under this tranche, 12,300,000 shares were issued to NFC at $0.37 a share.

On 15 August 2011 an electrical incident occurred in the high voltage switch room of the SAG mill at the Angas Zinc Mine. Following the successful completion of off-site remedial work on the high voltage switch room of the SAG mill, the processing plant was recommissioned on 28 August 2011 and is now operating at capacity.

The period of plant downtime has allowed for a significant surface ore stockpile to be accumulated, thereby substantially de-risking the mining operations. However, since it is not expected that the short-term loss of zinc concentrate production will be fully recovered over the balance of the 2011 year, the Company is reducing its full year production forecast by 4% to 45,000 tones of zinc concentrate.

The Company expects that it will be able to meet the full year forecast for lead/precious metal concentrate of 18,500 tonnes, which currently contributes over 50% of net revenue under prevailing market prices.

An investigation into the cause of the electrical incident is also progressing as a priority. No injuries were sustained in the incident.

In addition, to offset the cashflow impact resulting from the period of plant downtime, the Company has agreed to the deferral of the $3m principal repayment due in August 2011 to 29 December 2011 with Investec Bank (Australia) Limited. The negotiations are finalised and a written agreement has been signed by both parties to defer the principal repayment. Final documentation is to be put in place by 8 September 2011.

On 26 August 2011 the Company received notice from Transaminvest S.A. regarding a breach of the post completion obligations associated with the US$10m 5 year unlisted convertible notes, issued in September 2009 with a minimum conversion price of AU$1.70. The notice alleges that due to the stated breach the Company is in default under the terms of the respective agreements and thereby a right to redemption exists. The notice indicated to the Company that Transaminvest S.A. is reserving its rights in respect of the stated breach (it does not constitute a notice of redemption).

The Company is progressing the assessment of its position in addition to entering into formal commercial discussions with Transaminvest S.A. and taking the required action to rectify the stated breach as soon as practical.

There have been no further significant events subsequent to 30 June 2011 impacting on the interim financial report.

# Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 8 to 21:
   (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
   (b) give a true and fair view of the economic entity's financial position as at 30 June 2011 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in Adelaide the 31st day of August 2011 in accordance with a resolution of the Board of Directors.

**Kevin C Moriarty**
*Managing Director*

**Peter Zachert**
*Director*

## Independent Review Report *to the Members of Terramin Australia Limited*

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

### Report on the financial report

We have reviewed the accompanying interim financial report of Terramin Australia Limited ('the company'), which comprises the consolidated interim statement of financial position as at 30 June 2011, consolidated interim income statement and consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the interim period ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

*Directors' responsibility for the interim financial report*

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2011 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Terramin Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

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

## Independent Review Report *to the Members of Terramin Australia Limited (cont.)*

KPMG

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Terramin Australia Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Emphasis of matter*

Without qualification to the opinion expressed above, we draw attention to the following matters. For the half-year ended 30 June 2011 the Group incurred a loss of $7.2m and current liabilities exceeded current assets by $8.9m as at 30 June 2011.

As a result of the uncertainties set out in note 2(d) to the financial statements, including the ongoing commercial discussions with Transaminvest S.A. and the Group's ability to raise equity and or debt, there is material uncertainty which may cast doubt on the Group's ability to continue as a going concern without further cash injections by way of equity or debt and therefore its ability to realise its assets and discharge its liabilities in the normal course of business at the amounts recognised in the financial statements. Note 2(d) also describes the director's plans to take actions to enable funds to be available to continue as a going concern.

KPMG

KPMG

Derek Meates
Partner

Adelaide

31 August 2011

**TERRAMIN** AUSTRALIA LIMITED

Level 22, Westpac House
91 King William Street,
Adelaide, 5000
South Australia
t: +61 8 8213 1415
f: +61 8 8213 1416
e: info@terramin.com.au
w: www.terramin.com.au