



TERRAMIN AUSTRALIA LIMITED

2nd Quarter Report 2014

HIGHLIGHTS

- Tala Hamza DFS to be revised on the basis of new proposed mining method agreed with Algerian JV Partners.
- Withdrawal of arbitration proceedings against Algerian JV partners.
- Restructure of USD15m and AUD5m convertible notes.
- Water studies for Bird-in-Hand progressing well.
- Baseline environmental data collection at Bird-in-Hand ongoing.





TALA HAMZA PROJECT

100% owned by Western Mediterranean Zinc Spa (WMZ)

The Tala Hama Project contains a resource of 68.6 million tonnes (Measured, Indicated and Inferred) at 4.6% Zinc and 1.2% Lead. Terramin holds a 65% shareholding in WMZ. The remaining 35% is 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%). The Oued Amizour Exploration Permit 5225PE is a 125km² tenement which contains several lead-zinc deposits including the Tala Hamza deposit.

Update

During the quarter, Terramin has made significant progress in furthering the development of the Tala Hamza Project. Under the Technical Cooperation Agreement, China Non-Ferrous Metal Industry's Foreign Engineering and Construction Company (**NFC**) completed its technical and financial assessment of alternative mining methods for Tala Hamza and presented its findings to the joint venture partners. Following this presentation, Terramin and its partners have formally agreed to progress a preferred mining method through to Definitive Feasibility Study (**DFS**) which based on preliminary modelling, is expected to be economically and technically viable.

This DFS is expected to be completed in August when it will be presented to the Company's joint venture partners for review. Terramin expects to release the outcomes of the new DFS in the September quarter. Given the progress and high level of cooperation between Terramin and its joint venture partners, Terramin has withdrawn the arbitration proceedings before the International Chamber of Commerce against ENOF.

Terramin's joint venture partners have also advised that should the new DFS confirm the economic and technical viability of the Tala Hamza Project that they would like to achieve commencement of the development work on site as soon as possible in 2015.

These positive steps are being made at a time when the Algerian government has reaffirmed very strongly its interest in seeing the development of mining projects in Algeria. For instance, the Algerian parliament has recently enacted a new Mining Act which is expected to boost mining projects. In particular, a number of tax concessions and assistance in developing projects are made available to certain projects. These incentives are expected to be negotiated with the relevant ministry at a suitable time upon the Government having sufficient confidence in the feasibility of the project. Terramin also notes a recent statement by Algeria's new Minister for Industry and Mines, Mr Bouchouareb, who announced the acceleration of the implementation of the new Mining laws aimed at providing impetus to the mining sector in Algeria. In this announcement the Minister referred to a number of priority projects which included the Tala Hamza project.

The potential development of the Tala Hamza Project is timely as it coincides with an improving zinc market. The zinc price has continued to increase this year reaching a 3 year high of approximately USD 2,400 per tonne in recent days. This price increase reflects the improving outlook for zinc as zinc stocks on the London Metals Exchange continue to fall. The recent fall in zinc stocks appears to be due to continued robust demand in China, with also significant growth in demand for the metal from Europe and USA which reflects an improvement in the economic environment in the Western world. The longer term outlook for zinc price is also positive as the closure of the Century Mine in Australia (the world's 2nd largest mine) and Lisheen Mine in Ireland is expected to significantly reduce zinc concentrate supply from the Western world. This along with a lack of new zinc mine developments will mean that Western world zinc production is expected to fall. Leading analysts expect the zinc price to continue to rise with prices predicted to move above USD 3000 per tonne from 2017.

During the quarter, total expenditure on the project was \$182,165.52. There were no regional exploration activities on the permit during the quarter.



BIRD-IN-HAND GOLD PROJECT

100% owned by Terramin subsidiary Terramin Exploration Pty Ltd

The Bird-in-Hand Gold Project is located approximately 30km north of Terramin's existing mining and processing facilities at the Angas Zinc Mine. The project has an Inferred Resource of 233,000 ounces of gold at 13g/t which is amendable to underground mining.

It is anticipated that subject to required regulatory approvals, the Bird-in-Hand material will be processed utilising the facilities at Angas which can be modified to process gold-bearing material. The existing tailings dam at Angas has the capacity to hold all the Bird-in-Hand tailings.

Update

At the Bird-in-Hand Gold Project as part of the first phase of the hydrogeological study Terramin Exploration has completed the construction of four of the five planned test/investigation bores. Approval for the construction of these test bores was granted by the Department for Environment, Water and Natural Resources (**DEWNR**) and the South Australian Department of State Development (**DSD** – formerly DMITRE).

The bores are being constructed by a local drilling company and expert water bore contractors Frank Walsh Drilling. Hydro-geological consultants Australian Groundwater Technology has been supervising the drilling and recording field measurements. Information gathered during drilling will be utilised in the final groundwater model. The data collected to date indicates that the Brighton Limestone which hosts the orebody is dryer than expected with only two to three litres per second flow. The main water bearing aquifer is not rock type dependent but fracture hosted within a shear zone which was intersected in the overlying Tarcowie Siltstone. The fractured rock aquifer is flowing at approximately 25l/s.

A bore census has commenced in the Woodside area with the majority of local land owners consenting access to their land. From 25 properties 45 bores have had their position, water level, water quality measured and where possible bore depth and pump height were also recorded.

Subsequent to the reporting period, a second meeting was held with the Inverbrackie Ground Water Focus Group, a local group of groundwater users. An update on progress and findings was provided to the group, consistent with the information included in a brochure regarding the project which has been distributed to local residents. This brochure is available on the Company's website: www.terramin.com.au.

In preparation for the mining lease application baseline studies continued in the area with a particular emphasis on environmental soil testing. A high volume dust recorder and four dust deposition gauges were installed and a weather station is now recording the climatic conditions. Monthly water sampling of Inverbrackie Creek and quarterly sampling of regional monitoring bores continues. Progress continues on the Environment Protection and Biodiversity (EPBC) Act referral and associated planning for flora and fauna survey work scheduled for spring 2014.

During the quarter, total expenditure on the project was \$814,906.

ADELAIDE HILLS EXPLORATION

100% owned by Terramin and Terramin Subsidiary Terramin Exploration Pty Ltd

The Adelaide Hills project consists of twelve contiguous exploration tenements that cover 3547km² stretching 120km between Victor Harbor and Kapunda. This project area is considered prospective for gold, copper, lead, zinc and rare earth elements.

Update

The Adelaide Hills region has a long history of mining and was the site of Australia's first base metal (Glen Osmond, 1841) and gold (Victoria Mine, 1846) mines. From 1841 to 1851 virtually all metalliferous mines in Australia were located in South Australia. Over 250 historic gold and copper mines and prospects are located on Terramin's Adelaide Hills tenements. Terramin is currently compiling historical exploration and mining data as well as undertaking new geochemical and geophysical surveys. Project areas that have been identified for further work include Wheal Barton, Kapunda and Golden Slope.

Fieldwork during the period included prospect scale gravity surveys over the historic copper mines of Kapunda and Wheal Barton and geochemical sampling along the Wheal Barton trend (analyses awaited). Both copper deposits are associated with gravity lows that reflect the deep and intense clay alteration of the host rocks caused by acid sulphate weathering. As a first pass, follow up geochemical sampling is planned to investigate the identified gravity lows.

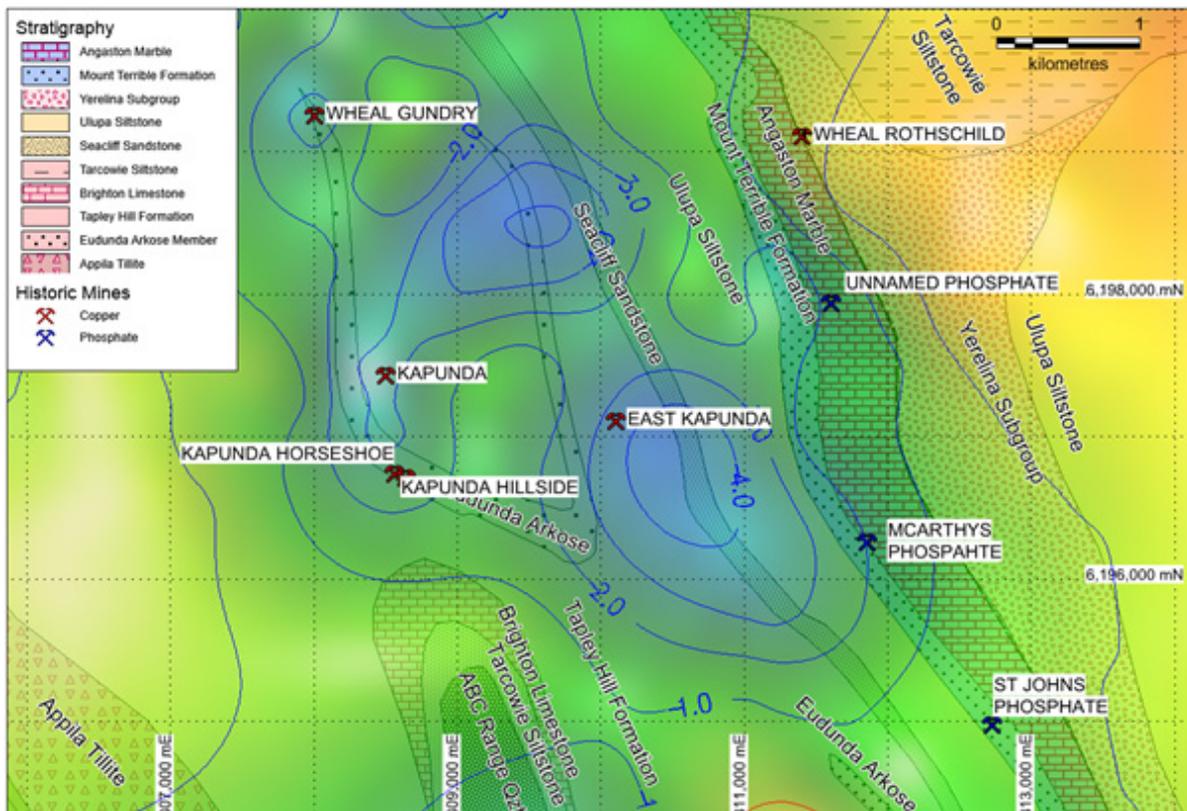


Figure 1. The modelled Kapunda gravity survey with contours (milligals) and historic mines are shown on government mapping.

During the quarter, total expenditure on the project was \$226,000.



ANGAS ZINC MINE

100% owned by Terramin

A 400,000 tpa operation that produced zinc and lead-copper-silver-gold concentrates currently in care and maintenance. The processing facility, tailings storage facility and other infrastructure are planned to be utilised in the treatment of ore from the Bird-in-Hand deposit.

Update

The Angas Zinc mine remains in care and maintenance in readiness for processing of ore from the Bird-in-Hand deposit. The addendum to the Angas PEPR for management of the site during care and maintenance continues to be assessed by DMITRE.

As previously reported the site remains in compliance with all regulatory requirements. During the period an auction was held to dispose of unutilised mobile equipment. Fixed plant infrastructure in good order was retained for future use.

The Angas Mine Closure Plan was submitted to DSD on 11 February. DSD have had a third party review the work undertaken to support the use of an Engineered soil cover system (phytocap) to replace the approved HDPE liner on the TSF. A meeting was held between Terramin 's consultants (URS) and DSD's consultant (O'Kane) to focus efforts to ensure that the correct information is provided to move the process forward. Work to complete the final closure plan is ongoing.

The Quarterly Environmental Report was completed with no issues reported. The geotechnical stability design was completed for the filling of the ventilation shaft and portal. Clean-up continues across the site with the sale of equipment and removal of scrap steel and rubbish.

The mine void is filling with water in accordance with the Company's water modelling. The rate of water rise has slowed due to the larger 140 and 160 levels having more void space to store water. Underground inspections are undertaken on a regular basis and show that ground conditions remain good with little degradation in the decline and level accesses. Water monitoring indicates that the pH of the water in the mine void is currently 7.4.

During the quarter, total expenditure in care and maintenance of the mine infrastructure was \$202,000.

MENNINNIE PROJECT

100% owned by Terramin subsidiary Menninnie Metals Pty Ltd

The Menninnie Project comprises a group of five Exploration Licences covering a contiguous area of 2,471km² in the Southern Gawler Ranges, South Australia. Menninnie Metals has entered into a Farm-in and Joint Venture Agreement with Musgrave Minerals Ltd (Musgrave) (ASX:MGV) regarding the Menninnie Project. Musgrave can earn up to 51% by spending \$6m in the first phase and, if Menninnie Metals does not contribute, up to 75% by spending an additional \$3m.

Update

During the quarter a detailed soil sampling grid (50m x 100m) was completed to better define the silver anomalism over the Frakes target (Figure 2) on the Menninnie Dam tenement. Results returned highly anomalous silver values including a peak value of 407 ppb Ag at the western edge of the grid where the anomalism remains open (see MGV:ASX announcement, 23rd May 2014). An infill geochemistry survey commenced at Frakes in June to refine targets for the next round of drilling. Wet weather has delayed the completion of this survey. Follow-up drilling to further test this target is being planned for the fourth quarter 2014.

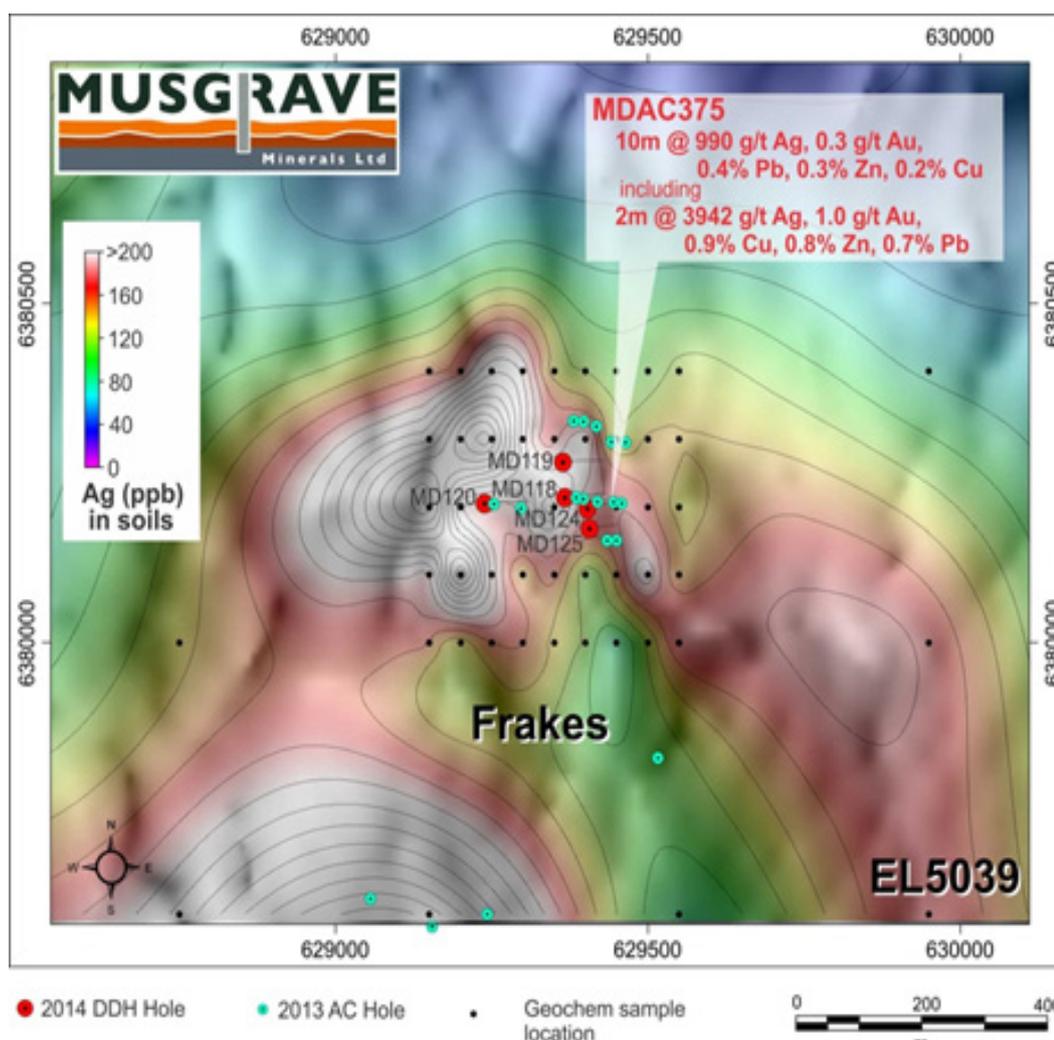


Figure 2: Location of drill hole collars at Frakes prospect with infill surface geochemistry showing significant silver anomalism west and south east of current drilling (from MGV:ASX announcement, 23rd May 2014)

Drill results received from the Spare Rib prospect were encouraging, including assay values up to 1.1% Pb, 0.7% Zn and 46.4g/t Ag (see MGV:ASX announcement, 23rd May 2014). Assay results were also received for diamond drillhole MD123 completed at the Tank Hill prospect in April. Localised Zn anomalism was encountered at shallow depth in this drillhole, (1.2m @ 1.04% Zn from 63m). The core shows zones of encouraging alteration but no other significant assay results were returned.

During the September 2014 quarter it is expected that the Frakes infill geochemical survey will be completed and some detailed gravity surveys will be carried out over key prospect areas to refine targets for future drilling.

MT IVE PROJECT

100% owned and operated by Terramin subsidiary Menninnie Metals Pty Ltd

The Mount Ive Project, located in the Southern Gawler Ranges, South Australia, consists of three Exploration Licences covering a contiguous area of 978km² and two adjoining Exploration Licence Applications covering a further contiguous area of 1305km² (Figure 3). The project is adjacent to (but separate from) the Menninnie Project and its southern boundary lies 6km north of the Paris silver deposit. The area is prospective for gold, silver, copper, lead, zinc and tin.

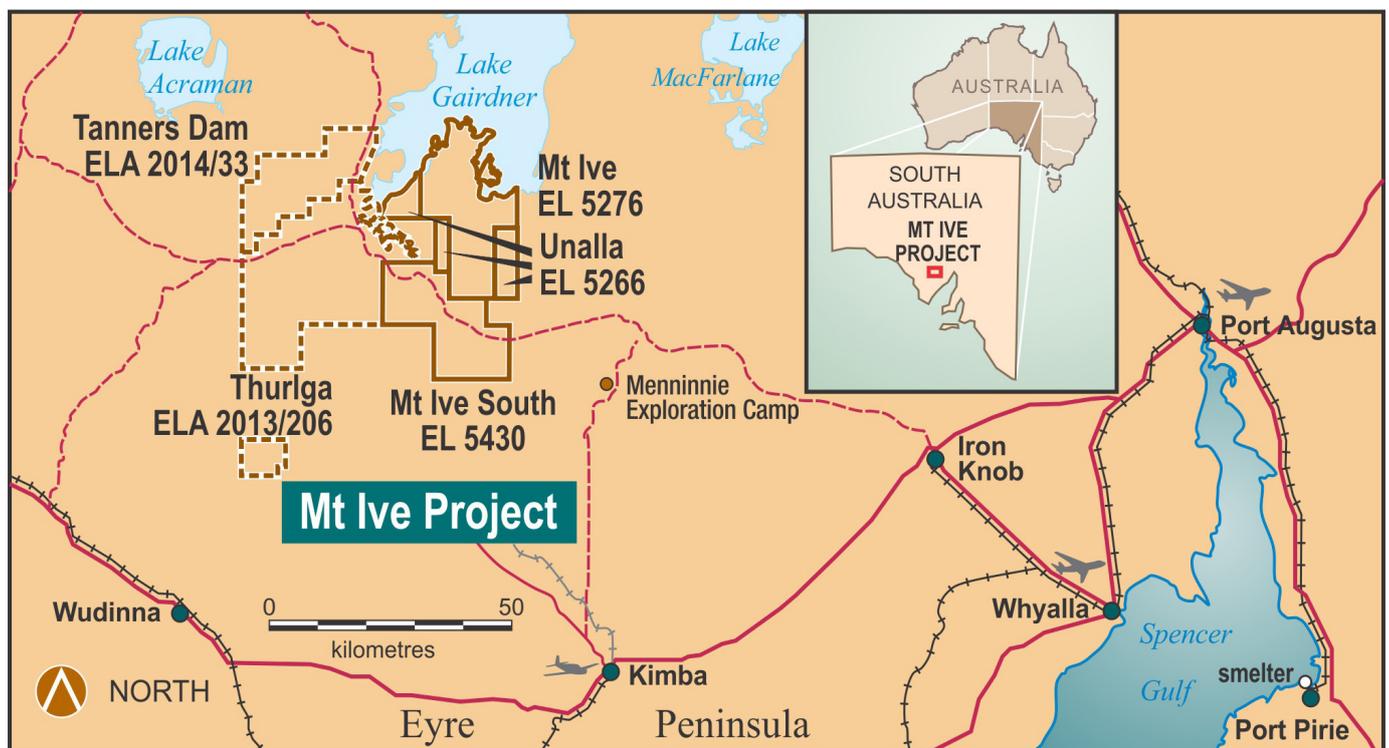


Figure 3. Location of Mt Ive Project tenements and tenement applications

Update

The Mt Ive South ELA was granted on 20/06/2014. Menninnie Metals accepted the offer of ELA2014/33 (Tanners Dam) by the Department of State Development (DSD) on 28/05/2014 and expects that this licence will be granted in the third quarter. Acquisition and compilation of historical exploration data for the entire project area is nearing completion. Some of this data has been difficult to source, delaying planned synthesis, reinterpretation and review of the exploration potential in the light of current targeting concepts. Planned reconnaissance field checking of geology accessible along tracks and fencelines on the Mt Ive and Unalla tenements was deferred until mid third quarter due to persistent wet weather.



CORPORATE

During the quarter, management and the board continued discussing with the representatives of Asipac Group Pty Ltd (**Asipac**) and an institutional investor for the restructure of the USD15.05 million (**Asipac Notes**) and AUD5 million (**Institutional Investor Notes**) which matured on 30th July and 31st July respectively.

After the reporting period, Terramin and Asipac have agreed to refinance the Asipac Notes with new Australian dollar denominated convertible notes which have a term of two years. As reported on the ASX on 24 July, this issue will be subject to approval of shareholders at an Extraordinary General Meeting (**EGM**) to be convened in coming weeks. The face value of these new notes will be determined based on the AUD/USD exchange rate on the day prior to the EGM. The convertible notes will be convertible at the subscriber's option in Terramin shares at A\$0.065. The convertible note will be subject to a fixed interest rate where the interest will be paid in cash or Terramin shares. All other terms of the convertible notes will be similar to those that currently apply to the Asipac Notes. Until a resolution approving the new convertible notes is passed by members at the EGM, the Asipac Notes have been extended to 20 September 2014, or the day prior to the EGM, whichever comes first.

Terramin and a new institutional investor have agreed to refinance the maturing Institutional Investor Notes with an issue of new A\$5.50 million convertible notes which have a term of two years. The convertible notes are convertible at the subscriber's option in Terramin shares at A\$0.065 per share. The convertible notes are subject to a fixed interest rate where the interest will be paid in cash or Terramin shares. These new convertible notes were issued on 31 July and the Institutional Investor Notes have been repaid. The new convertible notes to the new institutional investor were issued under Terramin's existing 15% placement capacity under ASX Listing Rules. However, Terramin will be seeking ratification of the issue of these convertible notes at the EGM.

During the reporting period the Company paid:

- USD354,927.24 in interest under the Asipac Notes for the period 11 May 2013 to 7 May 2014;
- AUD68,657.53 in interest under the existing corporate loan facility to Terramin;
- AUD62,136.99 in interest under the existing loan facility to Terramin Exploration Pty Ltd.

These interest payments were satisfied by an issue of shares in the Company in lieu of cash payments to Asipac as permitted by each facility agreement as approved by shareholders at the recent Annual General Meeting (**AGM**) held on 30 May 2014.

At the AGM, members also approved an issue of \$35,000 worth of shares to each of Mr Kennedy, Mr McGuinness, Mr Sheng and Mr Siciliano in lieu of cash for additional services to the board.

The Company cash balance at 30 June 2014 was A\$0.94 million.

Subsequent to the end of the quarter, the Company has increased the Terramin Exploration Pty Ltd loan facility by \$1.0 million to \$2.8 million, thus increasing access to working capital (see ASX announcement dated 29 July 2014). On 30 July, the Company also announced that, subject to shareholder approval at the EGM, Terramin will issue 23,529,412 shares to the Asipac Group to raise \$1 million. This issue will be used to repay part of the loan facility to Terramin Exploration. That partial repayment will enable Terramin Exploration to redraw on the facility as and when additional funding is required.

In addition, the Company is expecting to receive a Research & Development Tax rebate during the September quarter.



CORPORATE INFORMATION

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CAPITAL STRUCTURE

at 31 July 2014

Shares on issue1,262,463,577

Unlisted Options 1,300,000

Unlisted Convertible/redeemable notes:

Convertible at VWAP

(maturity September 2014)US\$15,050,000¹

Convertible at A\$0.065 per share

(maturity July 2016)A\$5,500,000

Conversion subject to minimum VWAP of \$1.70

(maturity September 2014)US\$10,000,000

DIRECTORS AND MANAGEMENT

Michael H Kennedy

Non-Executive Chairman

Kevin McGuinness

Non-Executive Director

Feng Sheng

Non-Executive Director

Angelo Siciliano

Non-Executive Director

Xie Yaheng

Non-Executive Director

Martin Janes

Chief Executive Officer

Stéphane Gauducheau

Company Secretary

1. To be converted to Australian dollar denominated convertible notes subject to shareholder approval.

Competent Person Statement

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr Eric Whittaker, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Whittaker is a full time employee of Terramin Australia Limited. Mr Whittaker has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Whittaker consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.