

# MACMIN SILVER LTD

A.B.N. 53 056 776 160

## INDEX TO CONSOLIDATED INTERIM FINANCIAL REPORT

HALF-YEAR ENDED 31 DECEMBER 2005

	Page
DIRECTORS' REPORT	1
AUDITORS' INDEPENDENCE DECLARATION	3
INDEPENDENT REVIEW REPORT TO THE MEMBERS	4
DIRECTORS' DECLARATION	6
CONSOLIDATED INCOME STATEMENT	7
CONSOLIDATED BALANCE SHEET	8
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9
CONSOLIDATED CASH FLOW STATEMENT	10
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	11

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Macmin Silver Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

# **MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**

A.B.N. 53 056 776 160

## **DIRECTORS' REPORT**

Your directors submit their report on the consolidated entity consisting of Macmin Silver Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2005.

## **DIRECTORS**

The following persons, except where indicated, were directors of Macmin Silver Ltd during the whole of the half-year and up to the date of this report:

Robert D. McNeil

Denis M. O'Neill

Peter A. McNeil

Ces E. Iewago (resigned 1 December 2005)

Garry G. Lowder

Edgar G. Newman (alternate to R D McNeil until appointed to replace CE Iewago on 1 December 2005)

## **RESULTS AND DIVIDENDS**

The consolidated entity loss after income tax for the half-year is \$911,320 (2004: \$649,881). There is no dividend paid or recommended.

The result for the half-year was significantly affected by a write-down of \$134,308 (2004: \$119,628) in respect of exploration expenditure in accordance with company policy as outlined in Note 1.

## **REVIEW OF OPERATIONS**

During the half-year the consolidated entity;

- (i) funded ongoing exploration, evaluation and pre development work on its exploration areas, particularly the Texas Silver project located near the Queensland/New South Wales border. The Consolidated Entity also continued development work on the Twin Hills Mine at the Texas Silver Project.
- (ii) raised \$4,788,073 before costs by the issue of 37,312,352 ordinary shares in Macmin Silver Ltd.

## **CHANGE IN REPORTING FRAMEWORK**

Macmin Silver Ltd adopted Australian equivalents to International Financial Reporting Standards (AIFRS) and the Urgent Issues Group abstracts from 1 July 2005.

## **MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**

A.B.N. 53 056 776 160

The group's consolidated financial statements for the half year ended 31 December 2005 were prepared under AIFRS. Comparative financial information has been restated in accordance with the transitional arrangements governing the introduction of AIFRS. This has required adjustments to be made retrospectively against opening retained earnings at 1 July 2004.

The impact of this transition on both the financial position and results of the consolidated entity are fully explained in the Financial Statements and notes attached thereto.

### **AUDITORS INDEPENDENCE DECLARATION**

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 immediately follows this report.

This report is made in accordance with a resolution of the directors.



D.M. O'Neill  
Managing Director

Bundall, Queensland  
7 March 2006

**Auditors' Independence Declaration**

As lead auditor for the review of Macmin Silver Ltd for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Macmin Silver Ltd and the entities it controlled during the period.



Stephen R Snook  
Partner

Brisbane  
8 March 2006

## **INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MACMIN SILVER LTD**

### **Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Macmin Silver Limited:

- does not give a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of the Macmin Silver Group as at 31 December 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This statement must be read in conjunction with the rest of our review report.

### **Scope**

#### ***The financial report and directors' responsibility***

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Macmin Silver Group (the consolidated entity), for the half-year ended 31 December 2005. The consolidated entity comprises both Macmin Silver Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### ***Review approach***

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations, changes in equity and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

**Independence**

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.



PricewaterhouseCoopers



Stephen R Snook  
Partner

Brisbane  
8 March 2006

**DIRECTORS' DECLARATION**

In the directors' opinion:

- (a) the financial statements and notes set out on pages 7 to 23 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial half-year ended on that date; and
- (b) 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 directors.



D.M. O'Neill  
Managing Director

Bundall, Queensland  
7 March 2006

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

		<b>CONSOLIDATED</b>	
	<b>Notes</b>	<b>31-Dec-05</b>	<b>31-Dec-04</b>
		<b>\$</b>	<b>\$</b>
Revenue from continuing operations	2	<b>218,754</b>	224,918
Other income	2	<b>85,594</b>	72,264
		<b>304,348</b>	297,182
Employee benefits expense		<b>(619,786)</b>	(410,781)
Corporate compliance and shareholder relations		<b>(151,140)</b>	(156,654)
Exploration expenditure written down		<b>(134,308)</b>	(119,628)
Office rental, communications and consumables		<b>(67,884)</b>	(53,507)
Depreciation		<b>(46,802)</b>	(50,865)
Finance costs		<b>(28,230)</b>	(28,230)
Insurances		<b>(24,607)</b>	(24,267)
Net loss on disposal of plant and equipment		<b>(1,505)</b>	-
Repairs and maintenance		-	(4,496)
Company equipment use charged to exploration and development		<b>27,720</b>	66,560
Share of net loss of associates accounted for using the equity method		<b>(141,888)</b>	(131,648)
Other expenses from ordinary activities		<b>(27,238)</b>	(33,547)
<b>Loss before income tax</b>		<b>(911,320)</b>	(649,881)
<b>Income tax expense</b>		-	-
<b>Loss for the half year</b>		<b>(911,320)</b>	(649,881)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share (loss)	7	<b>( 0.25)</b>	( 0.21)

The consolidated income statement above should be read in conjunction with the accompanying notes.



**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2005**

	Notes	CONSOLIDATED	
		31-Dec-05	30-Jun-05
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,493,782	2,324,013
Receivables		675,168	131,172
Other		207,517	246,657
<b>TOTAL CURRENT ASSETS</b>		<b>3,376,467</b>	<b>2,701,842</b>
<b>NON-CURRENT ASSETS</b>			
Receivables		197,605	197,605
Investments accounted for using the equity method		2,265,460	2,302,043
Available-for-sale financial assets		529,031	341,218
Property plant and equipment		5,734,461	3,600,032
Deferred exploration and development expenditure		11,810,125	9,490,233
<b>TOTAL NON-CURRENT ASSETS</b>		<b>20,536,682</b>	<b>15,931,131</b>
<b>TOTAL ASSETS</b>		<b>23,913,149</b>	<b>18,632,973</b>
<b>CURRENT LIABILITIES</b>			
Payables		1,400,257	404,297
Interest bearing liabilities		235,248	224,729
Equity subscriptions		573,800	458,990
Provisions		127,568	106,924
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,336,873</b>	<b>1,194,940</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing liabilities		685,184	701,776
Provisions		-	-
Rehabilitation provision		111,754	111,754
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>796,938</b>	<b>813,530</b>
<b>TOTAL LIABILITIES</b>		<b>3,133,811</b>	<b>2,008,470</b>
<b>NET ASSETS</b>		<b>20,779,338</b>	<b>16,624,503</b>
<b>EQUITY</b>			
Parent entity interest:			
Contributed equity		43,699,623	39,077,001
Reserves		652,633	209,100
Reserves attributable to associate		1,753,318	1,753,318
Accumulated losses		(25,326,236)	(24,414,916)
<b>TOTAL EQUITY</b>		<b>20,779,338</b>	<b>16,624,503</b>

The consolidated balance sheet above should be read in conjunction with the accompanying notes.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2005**

	<b>CONSOLIDATED</b>	
	<b>31-Dec-05</b>	<b>31-Dec-04</b>
	<b>\$</b>	<b>\$</b>
<b>Total equity at the beginning of the half-year</b>	<b>16,624,503</b>	<b>10,124,934</b>
Adjustment on adoption of AASB 132 and AASB 139, net of tax:		
Fair value investments reserve	37,813	-
Exchange differences on translation of foreign operations	-	-
<b>Net income/expense recognised directly in equity</b>	<b>37,813</b>	<b>-</b>
<b>Loss for the half-year</b>	<b>(911,320)</b>	<b>(649,881)</b>
<b>Total recognised income and expense for the half-year</b>	<b>(873,507)</b>	<b>(649,881)</b>
Transactions with equity holders in their capacity as equity holders:		
Share based payments reserve	405,720	97,651
Contributions of equity, net of transaction costs (note 4)	4,622,622	5,950,951
Dividends provided for or paid	-	-
	<b>5,028,342</b>	<b>6,048,602</b>
<b>Total equity at the end of the half-year</b>	<b>20,779,338</b>	<b>15,523,655</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

	Notes	CONSOLIDATED	
		31-Dec-05	31-Dec-04
		\$	\$
<b>Cash Flows from Operating Activities</b>			
Cash receipts in the course of operations (inclusive of goods and services tax)		218,754	230,906
Interest received		82,165	44,000
Payments on behalf of joint venture partners		-	(23,531)
Payments to suppliers and employees not included as part of exploration and evaluation activities below		(1,269,138)	(523,733)
Goods and Services Tax refunded		333,580	88,492
<b>Net cash flow from / (used in) operating activities</b>	8(a)	<b>(634,639)</b>	<b>(183,866)</b>
<b>Cash Flows From Investing Activities</b>			
Exploration and evaluation activities	8(b)	(291,039)	(883,430)
Development activities	8(b)	(1,000,826)	(672,492)
Payments for property, plant and equipment		(2,345,569)	(18,535)
Payments for security deposits		-	(780)
Proceeds from sale of property, plant and equipment		1,614	80,000
Payments for investments		(255,305)	(150,000)
<b>Net cash flow from / (used in) investing activities</b>		<b>(3,891,125)</b>	<b>(1,645,237)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares (net of share issue costs)		4,622,621	5,377,951
Proceeds from subscription money held pending issue of shares		114,810	-
Borrowings		104,000	-
Repayment of borrowings		(145,898)	-
<b>Net cash flow from / (used in) financing activities</b>		<b>4,695,533</b>	<b>5,377,951</b>
Net increase / (decrease) in cash and cash equivalents		169,769	3,548,848
Cash and cash equivalents at the beginning of the reporting period		2,324,013	1,694,709
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>2,493,782</b>	<b>5,243,557</b>

The consolidated statement of cash flows above should be read in conjunction with the accompanying notes.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**1. Summary of significant accounting policies**

This general purpose financial report for the interim half year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Macmin Silver Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

**(a) Basis of preparation of half-year financial report**

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

*Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

This interim financial report is the first Macmin Silver Ltd interim financial report to be prepared in accordance with AIFRSs. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Macmin Silver Ltd until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Macmin Silver Ltd interim financial report for the half year ended 31 December 2005, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 11.

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss and certain classes of property, plant and equipment.

**(b) Principles of consolidation**

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Macmin Silver Ltd ("company" or "parent entity") as at 31 December 2005 and the results of all subsidiaries for the half-year then ended. Macmin Silver Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(ii) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(iii) Joint ventures*

**Joint venture operations**

The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings.

**(c) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**(d) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Macmin Silver Ltd's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

**(e) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Revenue from hire fees is recognised at the end of each month during the term of the hire agreement.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**(f) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Macmin Silver Ltd and its wholly-owned Australian controlled entities have not implemented the tax consolidation legislation.

**(g) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**(h) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**(i) Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

**(j) Investments and other financial assets**

**From 1 July 2004 to 30 June 2005**

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

**Adjustments on transition date: 1 July 2005**

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

**From 1 July 2005**

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

**(i) Loans and receivables**

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

**(ii) Available-for-sale financial assets**

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.



**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the group establishes fair value by using a variety of valuation techniques. Where the fair value of a financial asset cannot be reliably measured, it will be measured at cost.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

**(k) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**(l) Property, plant and equipment**

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

Items of property, plant and equipment are depreciated over their estimated useful lives. The diminishing balance method is used. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Estimates of useful lives are made at the time of acquisition and varied as required. Expected useful lives are: Plant and Equipment between 4 years and 7 years.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

**(m) Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(n) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(o) Borrowing costs**

Borrowing costs incurred for 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 borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

**(p) Provisions**

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**(q) Employee benefits**

The provision for employee benefits relates to amounts to be paid to employees for annual leave and is based on legal and contractual entitlements and includes related on costs.

The liability for employee benefits relating to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

*Share-based payments*

Share-based compensation benefits are provided to employees via the Macmin Silver Ltd Employee Option Plan.

*Share options granted before 7 November 2002 and/or vested before 1 January 2005*

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

*Share options granted after 7 November 2002 and vested after 1 January 2005*

The fair value of options granted under the Macmin Silver Ltd Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the 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.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

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

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

**(r) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**(s) Earnings per share**

Basic earnings per share is determined by dividing the net profit / (loss) from ordinary activities after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the half-year. Potential shares as a result of options outstanding at the end of the half-year are not dilutive and therefore diluted earnings per share is not shown in the Financial Statements.

**(t) Exploration and Evaluation Costs**

The Company has adopted a policy of writing off exploration and evaluation expenditure at the end of the period in which it is incurred, unless a mineral resource has been assessed for the area of interest.

The Directors believe that this policy results in the carrying value of exploration expenditure more appropriately reflecting the definition of an asset, being future benefits controlled by the consolidated entity.

**(u) Provisions for environmental clean up costs**

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the balance sheet date. These costs are charged to the income statement. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwind of the discount which is shown as a financing cost.

**2. REVENUE**

	<b>CONSOLIDATED</b>	
	<b>31-Dec-05</b>	<b>31-Dec-04</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue from Continuing Operations</b>		
Joint venture operator and hire fees	<b>218,754</b>	224,918
<b>Other Revenue</b>		
Interest received / receivable from other corporations	<b>85,594</b>	72,264
<b>Total Revenue</b>	<b>304,348</b>	<b>297,182</b>

**3. EVENTS OCCURRING AFTER REPORTING DATE**

On 16 January 2006 the Company issued 25,536,000 fully paid ordinary shares to existing shareholders at 20 cents each, raising \$5,107,200 before costs of the issue under a Share Purchase Plan. A further 28,440 shares were issued at 25 cents raising \$7,110 before costs, pursuant to the exercise of options. \$573,800 of these funds were received prior to 31 December 2005 and a current liability Equity subscriptions appears on the balance sheet in respect of these applications. The cash received is included in Cash assets but was unavailable for company use pending issue of the shares.

Between 31 January 2006 and 1 March 2006 the Company issued 1,750,000 fully paid ordinary shares to employees at 20 cents each pursuant to the exercise of employee and director options, and issued 6,125 fully paid ordinary shares at 25 cents pursuant to the exercise of MMNO options, raising a total of \$351,531 before costs.

On 6 March 2006 the Company reached agreement to raise approximately \$6M through a private placement to a number of professional investors. The terms of the placement are 1 share and ½ a listed MMNO option for 36 cents. Subject to receipt of cleared funds and finalisation of the number of shares and option, the placement is expected to be completed by 11 March 2006

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**4. EQUITY SECURITIES ISSUED**

	HALF YEAR		HALF YEAR	
	2005	2004	2005	2004
	Shares	Shares	\$	\$
Prospectus issue	14,331,357	-	2,006,390	-
Exercise of employee options	512,500	100,000	85,000	4,500
Exercise of listed options	8,391,828	6,125	1,007,482	735
Private placement issues	14,076,667	1,750,329	1,689,200	255,138
Rights Issue	-	37,397,933	-	5,235,711
Issued for no cash, to acquire tenement interests	-	4,063,830	-	573,000
Less cost of issues	-	-	(165,451)	(118,133)
	<b>37,312,352</b>	<b>43,318,217</b>	<b>4,622,621</b>	<b>5,950,951</b>
	Options	Options	\$	\$
Issue of listed options	19,023,579	-	-	-
Exercise of employee options	(512,500)	(100,000)	-	-
Cancellation of employee options	(400,000)	-	-	-
Exercise of listed options	(8,391,828)	(6,125)	-	-
Expiry of listed options	(81,982,718)	-	-	-
Issue of employee options	4,500,000	2,562,500	-	-
Issue of directors options	600,000	600,000	-	-
	<b>(67,163,467)</b>	<b>3,056,375</b>	<b>-</b>	<b>-</b>

**5. CONTINGENT LIABILITIES**

Termination benefits are payable in certain circumstances under the employment agreements with the executive directors. Under these agreements, a sum equal to six months salary is payable at the date of such termination.

**6. SEGMENT INFORMATION**

Primary reporting – geographical segments.

	GEOGRAPHICAL SEGMENTS				
	Half Year	Australia \$	Canada \$	Papua New Guinea \$	Consolidated \$
Segment revenue	2005	304,348	-	-	304,348
	2004	297,182	-	-	297,182
Share of net loss of associate	2005	-	(141,888)	-	(141,888)
	2004	-	(131,648)	-	(131,648)
Segment results	2005	(769,432)	(141,888)	-	(911,320)
	2004	(518,233)	(131,648)	-	(649,881)

The consolidated entity operates predominantly in the mining industry. This comprises exploration and evaluation of gold, silver and base metals projects. Inter-segment transactions are priced at cost to the consolidated entity.

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**7. EARNINGS PER SHARE**

	<b>CONSOLIDATED</b>	
	<b>31-Dec-05</b>	<b>31-Dec-04</b>
	<b>Cents</b>	<b>Cents</b>
Basic earnings (losses) per share (cents per share).	<u>(0.25)</u>	<u>(0.21)</u>
Weighted average number of shares used in the calculation of the basic EPS.	<u>366,795,458</u>	<u>316,975,905</u>
The number of potential ordinary shares relating to options not exercised at the end of the half year. These potential ordinary shares are not dilutive.	<u>71,361,795</u>	<u>138,525,262</u>

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**8. CASH FLOW STATEMENT**

	<b>CONSOLIDATED</b>	
	31-Dec-05	31-Dec-04
	\$	\$
<b>(a) Reconciliation of the operating loss after income tax to the net cash flow from operations</b>		
Operating loss after income tax	(911,320)	(649,881)
Adjustment for non cash items:-		
- Less exploration and development costs written off (relates to investing activities)	134,308	119,628
- Loss/(gain) on disposal of fixed assets	1,505	(60,572)
- Depreciation and amortisation expense	46,802	50,865
- Non-cash employee benefits expense – share based payments	186,079	97,651
- Loss attributable to equity accounting of investment	141,888	131,648
Change in operating assets and liabilities:-		
- Accounts payable and provisions	270,956	152,077
- Amounts receivable	(543,997)	(50,145)
- Prepayments	39,140	24,863
<b>Net cash inflow / (outflow) from operating activities</b>	<b>(634,639)</b>	<b>(183,866)</b>
<b>(b) Reconciliation of the exploration, evaluation and development expenditure:-</b>		
Movement in Balance Sheet for the half year		
- Exploration and evaluation	2,319,892	1,998,936
Adjustment for Non Cash Items:-		
- Exploration costs written off	134,308	119,628
- Depreciation	(161,221)	-
- Employee share based remuneration	(219,641)	-
- Loan interest included in repayments	(31,146)	-
- Shares issued to acquire tenement interests	-	(573,000)
Change in assets and liabilities:-		
- Accounts payable and provisions	(750,327)	10,358
	<b>1,291,865</b>	<b>1,555,922</b>
Balance as per Statement of Cash Flows		
- Exploration and evaluation expenditure	291,039	883,430
- Development activities	1,000,826	672,492
	<b>1,291,865</b>	<b>1,555,922</b>

**9. NON-CASH FINANCING AND INVESTING ACTIVITIES**

	<b>CONSOLIDATED</b>	
	31-Dec-05	31-Dec-04
	\$	\$
Acquisition of 50% interest in two exploration projects by the issue of 4,063,830 ordinary shares to Malachite Resources NL.	-	573,000

**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**10. EXPLORATION COMMITMENTS**

**CONSOLIDATED**  
**31-Dec-05      31-Dec-04**  
**\$                      \$**

**Exploration Expenditure Commitments**

In order to maintain rights of tenure to exploration tenements the company and the consolidated entity are required to perform exploration work to meet the minimum expenditure requirements as specified by various governments. Outstanding obligations are not provided for in the accounts and are payable:

Not later than 1 year	<b>338,500</b>	346,000
Later than 1 year but not later than 2 years	<b>100,500</b>	54,000
	<b>439,000</b>	<b>400,000</b>

**Capital Expenditure Commitments**

Capital equipment, mine construction and commissioning at Twin Hills. Outstanding obligations are not provided for in the accounts and are payable:

Not later than 1 year	<b>4,880,000</b>	885,000
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**11. Explanation of transition to Australian equivalents to IFRSs**

**(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)**

**(i) Reconciliation of total equity reported under AGAAP to that under AIFRS**

		30 June 2005	31 Dec 2004	1 July 2004
	Notes	\$	\$	\$
<b>Total equity under AGAAP</b>		16,624,503	15,523,655	10,124,934
Retained earnings	(i), (ii), (iii)	(209,100)	(209,100)	111,449
Reserves	(i), (ii), (iii)	209,100	209,100	(111,449)
<b>Total equity under AIFRS</b>		<b>16,624,503</b>	<b>15,523,655</b>	<b>10,124,934</b>



**MACMIN SILVER LTD & ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**(2) Reconciliation of profit under previous AGAAP to profit under Australian equivalents to IFRSs (AIFRS)**

	Note	Consolidated	
		Year ended 30 June 2005	Half year ended 31 December 2004
		\$	\$
Loss after tax under AGAAP		(1,391,626)	(552,230)
Share based remuneration	(iii)	(97,651)	(97,651)
<b>Profit after tax under AIFRS</b>		<b>(1,489,277)</b>	<b>(649,881)</b>

**(3) Reconciliation of cash flow statement for the year ended 30 June 2005**

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

**(4) Notes to the reconciliations**

Under AASB 2 share-based Payment from 1 July 2004, the Group is required to recognise an expense for those options that were issued to employees under the Macmin Employee Share Option Plan after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) At 1 July 2004

For the Group there has been an increase in accumulated losses of \$111,449 and a corresponding increase in reserves.

(ii) At 31 December 2004

For the Group there has been an increase in accumulated losses of \$209,100 and a corresponding increase in reserves.

(iii) For the half-year ended 31 December 2004

For the Group there has been an increase in employee benefit expense of \$97,651.

(iv) At 30 June 2005

For the Group there has been no additional changes to accumulated losses and reserves since 31 December 2004.

(v) For the year ended 30 June 2005

For the Group there has been an increase in employee benefit expense of \$97,651.