



Suite 108, 1<sup>st</sup> Floor, 75 Cannon Street,  
London, EC4N 5BN  
Telephone: +44 (0) 20 7556 7038  
Facsimile: +44 (0) 870 351 2031

## MAGHREB MINERALS PLC

INTERIM RESULTS FOR THE INTERIM PERIOD ENDED 31 DECEMBER 2005

### CHAIRMAN'S STATEMENT

I am pleased to provide a review of Maghreb Minerals Plc's ("Maghreb" or the "Group") activities and financial results for the six months ended 31 December 2005.

#### Introduction

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Maghreb has made substantial progress in furthering its exploration programme in Tunisia where the Group is evaluating lead and zinc prospects. The total metres drilled in Tunisia to end of December 2005 was 4,497m, representing an average of 750m per month. Further details of our exploration activities in Tunisia are detailed below.

In Algeria, the Group has formed the Tan Chafao Mining Company S.A.R.L. in which it has an 85% equity interest with the Algerian Office National de la Recherche Géologique et Minière ("O.R.G.M") having an effective equity interest of 15%. This subsidiary has commenced a work programme on the Tan Chaffao exploration licence which the Group considers highly prospective for copper and gold mineralization. Further details of our exploration activities in Algeria are given below. A number of other initiatives are underway with respect to acquiring additional properties prospective for copper, gold and lead and zinc ("Cu, Au, Pb, Zn") mineralisation.

## **Financial**

The Group made a consolidated loss for the six months ended 31 December 2005 of £476,000 as summarised below.

| <b>Details</b>  | <b>Six months to 31 December 2005</b> |
|---|---------------------------------------|
|   | <b>(£'000)</b>                        |
| Interest income earned  | 27                                    |
| Expenditure incurred in respect of the Tunisian exploration programme | (265)                                 |
| Expenditure incurred with respect to Algeria and other prospects      | (70)                                  |
| Administration expenses   | (168)                                 |
| Loss for the period   | (476)                                 |

## **Tunisian Exploration Results**

### **Fej Lahdoum**

The drilling in 2005 has confirmed and extended the known high-grade Pb+Zn mineralisation at Fej Lahdoum. Following a review of the results for the Phase 1 programme, along with historical data from the mine and surrounding area, more drilling is planned.

Phase 1 drilling at the Fej Lahdoum prospect was completed subsequent to the end of the reporting period. For the complete programme, a total of 24 drill holes (MFL 1 to MFL 24) for 5,243.7m with depths ranging between 80m and 465m was completed. Pb + Zn mineralisation has been intersected in 17 drill holes. The drilling programme has met the Group's 3,000m drilling commitment to the Tunisian Government, enabling the Group to enter discussions regarding the Fej Lahdoum Mine Concession

Drill holes MFL 1 – MFL 7 were drilled around Dar N'Hal Sud. MFL 2 confirmed the mineralisation previously identified by the Office National des Mines (O.N.M) on Dar N'Hal Sud. The Dar N'Hal Sud measured resource was estimated by the O.N.M at 400,000 tonnes at a grade of 5.6% Pb and 7.7% Zn (13.3% combined Pb+Zn). The Dar N'Hal Sud deposit is a fault offset extension, situated some 100m south-east of the main Dar N'Hal Nord orebody where work in 1991 estimated a reserve of 1.4 million tonnes grading 5.6 % Pb and 6.0 % Zn.”

Ten drill holes (MFL8 to MFL 17) targeted principally the down-dip and lateral extent of the mineralisation over a strike length of 1,200m between the Dar N'Hal Nord mine and the Dar N'Hal Sud and achieved that aim but indicated structural complexity.

Seven drill holes (MFL 18 to MFL 24) in un-tested ground to the north of the Dar N'Hal Nord Mine, extended the projection of the surface area of the mineral resource at the Dar N'Hal Nord deposit by around 20%. Three of these drill holes also verified the results from the nearest O.N.M drill holes DNH25 (7m @ 16.4% Pb+Zn) and DHN 26 (5.8m @ 21.19% Pb+Zn) drilled previously.

Seventeen of the twenty-four drill holes intersected lead and zinc mineralisation. These were sampled and all assays have been received. Seven of these drill holes intersected significant lead and zinc mineralisation and the best intervals are as follows:

| <b>Drill Hole</b> | <b>From (m)</b> | <b>To (m)</b> | <b>(m)</b> | <b>Pb + Zn wt%</b>                           |
|-------------------|-----------------|---------------|------------|--|
| MFL 2             | 129.50          | 131.50        | 2.00       | 9.65%  |
|                   | 135.50          | 138.50        | 3.00       | 13.84%                                       |
|                   | 145.50          | 153.50        | 8.00       | 9.96%  |
| of which          | 145.50          | 147.50        | 2.00       | 13.58%                                       |
|                   | 149.50          | 153.50        | 4.00       | 11.82%                                       |
| MFL 8             | 321.00          | 400.80        | 79.80      | 5 intervals<br>ranging from<br>3% to 5%      |
|                   |                 |               |            | 14.6%  |
| of which          | 382.35          | 384.60        | 2.25       |  |
| MFL 9             | 289.45          | 322.20        | 32.75      | 3 intervals<br>ranging from<br>4.5% to 5.98% |
|                   |                 |               |            | 6.3%   |
| of which          | 313.50          | 322.20        | 8.70       |  |
| MFL 11            | 251.60          | 257.60        | 6.00       | One interval at<br>13.0%                     |
| MFL 18            | 195.65          | 213.20        | 17.55      | 13.42%                                       |
| of which          | 197.65          | 199.35        | 1.70       | 24.92%                                       |
|                   | 204.30          | 206.50        | 2.20       | 24.02%                                       |
|                   | 209.70          | 212.90        | 3.20       | 31.41%                                       |
|                   | 229.25          | 233.70        | 4.45       | 14.23%                                       |
| of which          | 231.00          | 232.00        | 1.00       | 27.21%                                       |
|                   | 237.20          | 238.20        | 1.00       | 10.19%                                       |
| MFL 21            | 276.10          | 300.55        | 24.45      | 7.15%  |
| of which          | 282.00          | 285.65        | 3.65       | 11.83%                                       |

|          |        |        |       |        |
|----------|--------|--------|-------|--------|
|          | 284.30 | 285.65 | 1.35  | 23.60% |
|          | 291.55 | 293.65 | 2.10  | 13.97% |
|          | 299.40 | 300.55 | 1.15  | 18.71% |
| MFL 22   | 246.50 | 247.50 | 1.00  | 14.10% |
|          | 253.80 | 255.25 | 1.45  | 27.55% |
|          | 260.70 | 265.70 | 5.00  | 6.81%  |
|          | 272.10 | 292.00 | 19.90 | 8.75%  |
| of which | 275.50 | 278.50 | 3.00  | 11.79% |
|          | 280.00 | 283.00 | 3.00  | 26.14% |

The results from the Phase 1 drilling programme, along with a large amount of information recently received from Dar N'Hal Nord mine archives, has highlighted structural complexity associated with the high-grade Pb+Zn mineralisation at Fej Lahdoum. The Group is undertaking a review and modelling of the data and has commissioned an external review of structural data for the area along strike to the north east of Dar N'Hal Nord mine. Results from these studies are expected during the first quarter of 2006.

### **Djebba**

At Djebba, previous work by the O.N.M in the 1980s and by the Canadian Group SIDAM-Minorex in 1987-1989, resulted in a positive feasibility study for an open pit at Djebba based on a resource estimate of 2.7Mt grading 6.14% Zn and 3.34% Pb within which there was an open pit reserve estimate of 800,000t grading 6.59% Zn and 4.09% Pb.

The Group drilled four shallow drill holes in 2005 to test stratigraphy, to verify the grade of known mineralisation and to extend exploration to cover the postulated feeder structure for the previously delineated Pb + Zn mineralisation. The best intervals were as follows:

#### **MDJ3 (near O.N.M - DJ7)**

#### **One mineralised zone 21.20m with 13.24% Pb+Zn**

| <b>From</b> | <b>To</b> | <b>Interval</b> | <b>Pb%</b> | <b>Zn%</b> | <b>Pb+Zn%</b> |
|-------------|-----------|-----------------|------------|------------|---------------|
| 37.70       | 58.90     | 21.2m           | 7.58       | 5.66       | 13.24         |
| Including   |           | 13.01m          | 10.92      | 8.89       | 19.81         |
| Including   |           | 2.9m            | 32.18      | 8.58       | 40.76         |
| Max. Value  |           | 0.45m           |            |            | 50.9          |
|             |           | 1.15m           |            |            | 13.19         |

Highest combined Pb + Zn value of 61.21% over 0.45m was recorded in drill hole MDJ 3 at a depth below surface of 57m.

**MDJ4 (near O.N.M- DJ30b): Two mineralised zones:**

**Upper: 27.90m with 9.67% Pb+Zn**

| <b>From</b> | <b>To</b> | <b>Interval</b> | <b>Pb%</b> | <b>Zn%</b> | <b>Pb+Zn%</b> |
|-------------|-----------|-----------------|------------|------------|---------------|
| 42.15       | 70.05     | 27.9m           | 2.22       | 7.46       | 9.67          |
| Including   |           | 17.6 m          | 3.62       | 10.93      | 14.55         |
| Including   |           | 3.95 m          | 5.90       | 19.77      | 25.67         |
| Max value   |           | 1.15 m          |            |            | 31.07         |
|             |           | 1.03m           |            |            | 16.00         |

**Lower: 25.60m with 5.92% Pb + Zn**

| <b>From</b> | <b>To</b> | <b>Interval</b> | <b>Pb%</b> | <b>Zn%</b> | <b>Pb+Zn%</b> |
|-------------|-----------|-----------------|------------|------------|---------------|
| 74.30       | 95.65     | 25.60m          | 1.71       | 4.21       | 5.92          |
| Max. Value  |           | 1.00m           |            |            | 9.74          |
|             |           | 1.40m           |            |            | 6.74          |

The results from verification drilling give strong corroboration of the data from previous programmes over a strike length of 200m, making this exploration permit a focus for accelerating exploration and drilling activity.

A gravity and magnetic survey has been undertaken at Djebba aimed at delineating the possible extent of the massive Pb + Zn mineralisation and a possible feeder structure confirmed from 2005 and previous drilling.

Results of the geophysical surveys delineate the known extent of the massive Pb + Zn mineralisation and extends beyond it to the east where the strong peak anomaly is still open. A gravity anomaly of similar amplitude and greater extent has been revealed to the north east of the known mineralised area, and remains to be closed off and is untested by drilling.

The gravity and magnetic survey lines are being extended to close off anomalies to the north and the east and are scheduled to be completed by the end of March 2006.

Follow up drilling at Djebba has commenced, and completion of interpretation of the geophysical surveys should coincide with the arrival of a second drilling rig.

Drilling is planned to target possible extensions of the identified mineral resource at Djebba, and test for new zones of mineralisation, with a view to moving the project along as quickly as possible towards the pre-production stage.

### *Permits and Options*

Discussions have commenced with the O.N.M and the Tunisian authorities concerning the Mine Concessions at Fej Lahdoum and Bou Jabeur.

Further geological work on the Koudiat El Loutia, Koudiat Sidii, Djebba, Ouled Moussa, Jebel Fej Lahdoum, Kef Dougga, Kef Adhama and Ain Jemmala, exploration permits was reported to Direction General des Mines (“D.G.M.”) and these have been renewed for a period of 3 years except for Koudiat Sidii, Kef Dougga, Kef Adhama and Ain Jemmala, which have been dropped.

### *Algerian Operations*

A work programme on the Tan Chaffao exploration license, about 250km northwest of Tamanrasset in the Hoggar region of Algeria, commenced in early November 2005. A base camp has been established there with the assistance of the O.R.G.M. The exploration programme includes mapping, additional geophysical surveys and drilling. The drilling will be aimed at verifying the grades of mineralisation identified by previous work by the O.R.G.M and possible extensions along strike to the north and south.

An O.R.G.M drill rig has been mobilised to Tan Chaffao and the first drill hole has been drilled to 160m. The first drillhole, MTC001 was located 40m northwest down dip from the previous O.R.G.M drillhole DDH S21, to test the down dip extension of the mineralisation. DDH21 reported 17m grading 3.5 gpt Au and 1% Cu, and 21m grading 2.0 gpt Au within 100m from surface. Visual inspection of the drill core from drillhole MTC001 indicates a similar geological sequence, of altered volcano-sedimentary rocks with quartz veins and secondary pyrite in chlorite-sericite schists, to that recorded from DDH S21. Core logging is in progress and the results from core assays are expected at the end of March 2006.

At Tan Chaffao, the geology comprises acid volcanics (porphyritic rhyolites) along the southern eastern edge of the licence area overlain by a volcano-sedimentary unit, including volcanic tuffs, with mafic volcanics (diabase) lateral to and overlying the volcano-sedimentary unit to the North. Major fault structures traverse the area.

The polymetallic (Zn, Pb, Cu, Au) mineralisation of Tan Chaffao was discovered in 1971, and explored during two field seasons (1972 and 1973) by Russian supervised O.R.G.M teams. The work consisted of geological and geophysical studies and a 10-hole drill programme.

The 10 holes were drilled to depths of between 100m to 200m on several mineral-bearing zones over a strike length of 1,450m. The lenses vary in length from 50m to 300m with widths of between 0.6m with 16.5m. Of the 10 drill holes, 6 holes were assayed and intersected significant mineralisation, which has yet to be verified by Maghreb. Core from some of the remaining holes is located adjacent to the drill collars. This core will be logged and assayed and where appropriate confirmatory drilling undertaken.

### Assay results for O.R.G.M samples

|                  | Thickness<br>(m) | Grade  | Grade | Grade |
|------------------|------------------|--------|-------|-------|
|                  |                  | Au gpt | Cu%   | Zn %  |
| Trench 101       | 10.0             | 2.2    | -     | -     |
| Trench 102       | 3.2              | 3.3    | -     | -     |
| Trench 106       | 10.0             | 1.0    | -     | -     |
| Drill Hole S 21  | 17.0             | 3.5    | 1.0   | 1.8   |
| Drill Hole S 21  | 21.0             | 2.0    | -     | -     |
| Drill Hole S 28b | 17.0             | 1.0    | 0.4   | 1.5   |
| Drill Hole S 30  | 6.5              | -      | 0.1   | 1.9   |
| Drill Hole S 43b | 4.4              | -      | 0.4   | -     |
| Drill Hole S 24  | 9.0              | 3.3    | 0.6   | -     |
| Drill Hole S 23  | 5.0              | 8.6    | 1.2   | -     |
| Drill Hole S 23  | 5.8              | 3.6    | 0.5   | -     |

Mineralisation at Tan Chaffao occurs as disseminated and massive sulphide within volcano-sedimentary formations of upper Proterozoic age. Structurally the mineralisation occurs within a large NS trending syncline, adjacent to the deep NS fault with which the gold deposits of Tirek and Amesmessa and Pb + Zn mineralisation in the south of Algeria are associated. Only limited exploration has been carried out on the remainder of the exploration licence.

### Outlook

The Group is now making significant progress with drilling rates increasing in Tunisia and key studies and geophysical surveys nearing completion. The results from our Phase 1 drilling at Fej Lahdoum indicate continuity but also structural complexity between the known deposits and all available data is being compiled and will be modelled prior to proceeding with a second drilling programme. The excellent results of verification drilling on the Djebba property means that the Group will focus its attention on drilling that prospect guided by the results of geophysical surveys. The Group believes that the focus at Djebba will provide the best opportunity to reach the pre-production stage in the shortest time frame.

In Algeria, the exploration programme is moving ahead with the first core drilling results expected during the first quarter of 2006. The Tan Chaffao property represents an exciting development for the Group, presenting an opportunity to leverage off earlier work by the O.R.G.M, which indicated potential for a large tonnage orebody. In addition it provides Maghreb with a platform to acquire additional properties, some potentially representing near term production, in this large underdeveloped mineral rich province.

The Group continues to work closely with personnel of the O.N.M in Tunisia and with the O.R.G.M in Algeria. The Group enjoys strong support concerning logistics and geological expertise from both organisations, for which I am most grateful.

Gordon P Riddler

Executive Chairman            16 March 2006

Enquiries:

Maghreb Minerals Plc  
Gordon Riddler/ Robyn Storer

Westhouse Securities LLP  
Bill Staple / Richard Morrison

Tel: 44 (0) 20 7556 7038

Tel: 44 (0) 20 7601 6100

## CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2005

|  | Un-audited<br>6 months<br>ended 31<br>December<br>2005 | Un-audited<br>6 months<br>ended 31<br>December<br>2004 | Audited<br>13 months<br>ended 30<br>June<br>2005 |
|--|--|--|--|
|  | £'000  | £'000  | £'000  |
| <b>Revenue</b>                         | -  | -  | -  |
| Exploration expenses                   | (265)  | (120)  | (446)  |
| <b>Gross loss</b>                      | <b>(265)</b>   | (120)  | (446)  |
| Administrative expenses                | (238)  | (202)  | (403)  |
| Listing and company formation expenses | -  | (495)  | (496)  |
| <b>Operating loss</b>                  | <b>(503)</b>   | (817)  | (1,345)  |
| Investment income                      | 27   | 2  | 32   |
| <b>Loss before tax</b>                 | <b>(476)</b>   | (815)  | (1,313)  |
| Income tax expense                     | -  | -  | -  |
| <b>Loss for the period</b>             | <b>(476)</b>   | (815)  | (1,313)  |
| <b>Earnings per share</b>              |  |  |  |
| Basic loss per share (pence)           | (1.20)   | (2.06)   | (3.32)   |
| Diluted loss per share (pence)         | (0.93)   | (1.69)   | (2.60)   |

## CONSOLIDATED BALANCE SHEET

As at 31 December 2005

|  | Un-audited<br>31<br>December<br>2005 | Un-audited<br>31<br>December<br>2004 | Audited<br><br>30 June<br><br>2005 |
|--|--------------------------------------|--------------------------------------|------------------------------------|
|  | £'000                                | £'000                                | £'000                              |
| <b>Non-current assets</b>                    |                                      |                                      |                                    |
| Intangible assets                            | 82                                   | 82                                   | 82                                 |
| Property, plant and equipment                | 193                                  | 178                                  | 200                                |
|  | <b>275</b>                           | <b>260</b>                           | <b>282</b>                         |
| <b>Current assets</b>                        |                                      |                                      |                                    |
| Other receivables                            | 115                                  | 14                                   | 19                                 |
| Cash   | 1,173                                | 2,383                                | 1,766                              |
|  | <b>1,288</b>                         | <b>2,397</b>                         | <b>1,785</b>                       |
| <b>Current liabilities</b>                   |                                      |                                      |                                    |
| Trade and other payables                     | (48)                                 | (160)                                | (76)                               |
| <b>Net current assets</b>                    | <b>1,240</b>                         | <b>2,237</b>                         | <b>1,709</b>                       |
| <b>Total assets less current liabilities</b> | <b>1,515</b>                         | <b>2,497</b>                         | <b>1,991</b>                       |
| <b>Net assets</b>                            | <b>1,515</b>                         | <b>2,497</b>                         | <b>1,991</b>                       |
| <b>Equity</b>                                |                                      |                                      |                                    |
| Share capital                                | 237                                  | 237                                  | 237                                |
| Share premium account                        | 3,067                                | 3,067                                | 3,067                              |
| Retained earnings                            | (1,789)                              | (807)                                | (1,313)                            |
| <b>Total equity</b>                          | <b>1,515</b>                         | <b>2,497</b>                         | <b>1,991</b>                       |

## STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2005

|                                    | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>£'000 |
|------------------------------------|---------------------------|---------------------------|-------------------------------|----------------|
| <b>Balance at 7 June 2004</b>      | -                         | -                         | 8                             | 8              |
| Loss for the period                | -                         | -                         | (815)                         | (815)          |
| Issue of share capital             | 237                       | 3,067                     | -                             | 3,304          |
| <b>Balance at 31 December 2004</b> | <b>237</b>                | <b>3,067</b>              | <b>(807)</b>                  | <b>2,497</b>   |
| Loss for the period                | -                         | -                         | (506)                         | (506)          |
| Issue of share capital             | -                         | -                         | -                             | -              |
| <b>Balance at 1 July 2005</b>      | <b>237</b>                | <b>3,067</b>              | <b>(1,313)</b>                | <b>1,991</b>   |
| Loss for the period                | -                         | -                         | (476)                         | (476)          |
| <b>Balance at 31 December 2005</b> | <b>237</b>                | <b>3,067</b>              | <b>(1,789)</b>                | <b>1,515</b>   |

## CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2005

|   | Un-audited                               | Un-audited                               | Audited                               |
|---|--|--|---------------------------------------|
|   | 6 months<br>ended 31<br>December<br>2005 | 6 months<br>ended 31<br>December<br>2004 | 13 months<br>ended 30<br>June<br>2005 |
|   | £'000                                    | £'000                                    | £'000                                 |
| <b>Cash flows from operating activities</b>     |  |  |                                       |
| Operating loss before interest and tax          | (503)                                    | (817)                                    | (1,345)                               |
| Add: Depreciation charges for the period        | 24                                       | 3  | 22                                    |
| Operating profit before working capital changes | (479)                                    | (814)                                    | (1,323)                               |
| Increase in debtors                             | (96)                                     | (14)                                     | (19)                                  |
| (Decrease) / increase in creditors              | (28)                                     | 160                                      | 76                                    |
| Cash absorbed by / from operations              | (124)                                    | 146                                      | 57                                    |
| <b>Net cash from operating activities</b>       | <b>(603)</b>                             | <b>(668)</b>                             | <b>(1,266)</b>                        |
| <b>Cash flows from investing activities</b>     |  |  |                                       |
| Purchases of plant and equipment                | (17)                                     | (181)                                    | (222)                                 |
| Interest income received                        | 27                                       | 2  | 32                                    |
| Net cash from investing activities              | 10                                       | (179)                                    | (190)                                 |
| <b>Financing activities</b>                     |  |  |                                       |
| Proceeds on issue of share capital              | -  | 3,222                                    | 3,222                                 |
|   | -  | 3,222                                    | 3,222                                 |
| <b>Net (decrease) / increase in cash</b>        | <b>(593)</b>                             | <b>2,375</b>                             | <b>1,766</b>                          |
| Cash at the beginning of the period             | 1,766                                    | 8  | -                                     |
| <b>Cash at the end of the period</b>            | <b>1,173</b>                             | <b>2,383</b>                             | <b>1,766</b>                          |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. General information

Maghreb Minerals plc are taking advantage of the option within the Companies Act and are proposing to adopt International Financial Reporting Standards (IFRS) for the year ending 30 June 2006.

The interim financial information for the six months ended 31 December 2005 has been prepared under IFRS as adopted for use in the EU. It has not been necessary to restate any of the comparative financial information as a consequence of this change.

The transitional arrangements for IFRS are set out in IFRS 1 'First-time Adoption of International Financial Reporting Standards'. The Group's transition date to IFRS is 7 June 2004 being the first day of the comparative period to 30 June 2005, and accordingly the interim financial report together with the comparative information have been prepared using accounting policies consistent with IFRS.

The results for the year ended 30 June 2005 have been audited whilst the results for the six months ended 31 December 2004 and 31 December 2005 are un-audited. The interim report is un-audited and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The statutory accounts for that year, which were prepared under UK Generally Accepted Accounting Principles (GAAP), have been delivered to the Registrar of Companies. The auditors' opinion on those accounts was unqualified and did not contain a statement made under s237(2) or s237(3) of the Companies Act 1985.

There is no material seasonality associated with the Group's activities.

To the best of the Directors' knowledge, the half yearly interim financial report gives a true and fair view of the assets, liabilities, financial position and profit and loss of the entity and were approved by the Board on 16 March 2006.

### 2. Accounting policies

The interim financial report has been prepared in accordance with IFRS, including IAS34 'Interim Financial Reporting'.

The adoption of IFRS has resulted in significant changes to the Group's accounting policies in the areas detailed below:

*a. Recognition of exploration and evaluation assets*

The Group has decided on early adoption of International Financial Reporting Standard 6 'Exploration for and Evaluation of Mineral Resources'.

This standard allows for the accounting policies applied immediately before adopting the IFRS to be continued. Accordingly, the drill used to excavate samples from the ground, and the rights to explore, in the form of mine options and permits, have been recognised at cost as exploration and evaluation assets in the financial statements. The drill is recognised as a tangible fixed asset and the options and rights as intangible fixed assets. All other expenditure related to exploration and evaluation, such as drilling expenses, and geologist and assay costs are expensed to the income statement.

The drill is depreciated over its useful economic life, which remains the same at 5 years, and the mine options and patents are held at cost. All exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of these assets may exceed the recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, any resulting impairment loss will be measured, presented and disclosed in accordance with IAS 36 'Impairment of Assets'.

*b. Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation and the Group intends to settle its current assets and liabilities on a net basis.

#### *Foreign currencies*

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Pounds Sterling using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used.

### **3. Taxation**

No liability in respect of income tax has arisen during the period, as a result of trading losses in each of the Group companies. No deferred tax liability or asset has been recognised in the period.

#### 4. Earnings per share

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Basic earnings per ordinary share have been calculated on profit attributable to members from continuing activities of the parent company and on 39,559,002 (31 December 2004 – 39,559,002) ordinary shares, being the weighted average number of ordinary shares in issue throughout the six months ended 31 December 2005.

Diluted earnings per ordinary share have been calculated on profit attributable to members from continuing activities of the parent company and on 51,258,503 ordinary shares, warrants and share options, being the weighted average number of ordinary shares, warrants and share

options in issue throughout the six months ended 31 December 2005. This figure comprises :

|  | Number of<br>shares | Number of<br>shares |
|--|---------------------|---------------------|
| Weighted average number of ordinary shares for the purpose of basic loss per share   |                     | 39,559,002          |
| Effect of dilutive potential ordinary shares   |                     |                     |
| Warrants   |                     | 8,529,501           |
| Share options  | 2,450,000           |                     |
| Share options issued 19 October 2005 to G. Heard                                     | <u>720,000</u>      |                     |
|  |                     | 3,170,000           |
| Weighted average number of ordinary shares for the purpose of diluted loss per share |                     | <u>51,258,503</u>   |

#### 5. Availability of report

Copies of this report are to be sent to all shareholders and are available from the Company's registered office at 25 Moorgate, London EC2R 6AY.

## **EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

### **Reconciliation of equity and statement of recognised income and expense**

The adoption of IFRS has had no material impact on the figures reported in these interim statements, either for the six months to 31 December 2005, or either of the comparative periods.

|                             | <b>Equity<br/>(UK GAAP and<br/>IFRS)<br/>£'000</b> | <b>Loss for period<br/>(UK GAAP and<br/>IFRS)<br/>£'000</b> |
|-----------------------------|--|---|
| 7 June 2004                 | 8  | -   |
| 31 December 2004 (6 months) | 2,497  | (815)   |
| 30 June 2005 (13 months)    | 1,991  | (1,313)   |

END