ADMIRALTY RESOURCES NL

A.B.N. 74 010 195 972

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

ADMIRALTY RESOURCES NL
A.C.N. 010 195 972
DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

The Board of Directors of Admiralty Resources NL have pleasure in submitting the financial report of the Company for the half year ended 31 December 2005. In order to comply with the provisions of the Corporations Act, 2001, the directors report as follows:

DIRECTORS

The names and particulars of the Directors of Admiralty Resources NL in office at any time during or since the end of the period:

Professor John Ross Harper	**Chairman**
Phillip Thomas	**Managing Director/CEO**
John Anderson	**Director** – Commenced 14/12/05
Anthony Dickson	**Director** – Ceased 16/12/05

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity is the exploration and development of economic mineral deposits including minerals occurring in brine lake deposits.

OPERATING RESULTS

The operating loss after tax for the consolidated entity for the half year ended 31 December 2005 was $5,707,120 (2004: $626,783).

DIVIDENDS

No dividends were paid during the half-year, nor are any recommended.

AUDITORS' INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 4.

ADMIRALTY RESOURCES NL
A.C.N. 010 195 972
REVIEW OF OPERATIONS

Highlights

- All of the three resolutions put to the share holders were passed at the 2005 AGM.

- Sociedad Contractual Minera Santa Barbara (SCMSB), which is currently 49% owned by Admiralty Resources NL has acquired two new tenements at a recent sealed tender bid conducted by the Chilean Government. SCMSB has committed to spend USD$147,000 over the next twelve months further exploring the tenement with the view to complete an inferred JORC resources estimate.

- Rheochem Ltd signed a Head of Agreement and Agency Agreement to buy up to 10,000 tonnes of Potash worth USD$1,500,000. Admiralty Resources plans to produce 40,000 tonnes of Potash per year.

- Admiralty acquired tenements covering a surface mine at Salar Olaroz salt lake in Argentina. This tenement is close to the Rincon Salar Argentina tenements already owned by Admiralty Resources. The new tenement will be used to mine ulexite, from which boric acid and sodium tetraborate will be extracted. This is an opportunistic acquisition in line with board strategy of developing the Rincon Salar salt lake or economic tenements located close by. The board has computed that the 230,600 tonnes of boric acid equates to US$92 million at current long term contract prices of US$400 per tonne.

- Major contract let to K-UTEC for Potash and Potassium sulphate engineering. This company based in Sonderhausen, Germany will develop the front end process for Admiralty's lithium chloride manufacturing plant. The front end process will extract potassium chloride (Potash) and potassium sulphate from the Rincon Salar Brines. The first stage on the contract is worth more than €110,000 and concludes in May 2006. Production of 40,000 tonnes of potash and 40,000 tonnes of potassium sulphate will achieve sales revenue of US$8million per annum at current prices.

- The measured and probable reserves of the Japonesa iron ore mine in Chile operated by Sociedad Contractual Minera Santa Barbara (SCMSB) have been calculated at 32.45 million tones at an average grade of 12.2%. This is equivalent to six million tonnes of iron ore averaging 60% iron (Fe) after beneficiation. SCMSB has in place permits to stock pile 600,000 tonnes of iron ore at the mine, (and ore from other adjacent mines) and to ship 1.5 million tones from the Port Caldera. At an average market price of 62.79 cents per dry metric tonne per 1% Fe content FOB Chile (Nov 05), the revenue for the first year of production is budgeted at US$53.37 million at 63% Fe grade.

Chilean Iron Ore Project

- Admiralty's associated company in Chile, SCMSB has signed a contract with the Port of Caldera to ship iron ore from the Port, located about 180 kilometers north of the mines. A deposit of US$250,000 has been provided to secure the Port facility.

- The mines are located in Vallenar, Chile and have stockpiles of iron ore of approximately 2 million tonnes that have already been extracted. In addition, the mines are expected to produce approximately 1.5 million tonnes of iron ore per annum over the next 4 years based on drilling results on the Japonesa tenement alone. Stockpile in other mines have not been quantified to-date. The sale of iron ore from these mines is expected to commence in the 2007 financial year.

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REVIEW OF OPERATIONS

A major contract has been awarded to Belsarco, a publicly listed company in Chile for the following activities based on a US$ per tonne basis:

Cost of operating the SCMSB business, personnel, plant etc	$4.00
Operation of the plant crushers, high speed drums and conveyors	$6.50
Transport of the iron ore to the stockpile at Caldera	$11.00
Loading the ship at port including port owner royalties	$4.00
Shipping Royalties	$0.50
Total	$26.00

Work is progressing on the final loader configuration but we anticipate a minimum capacity of 10,000 tonnes per day which will be upgraded to 25,000 tonnes this year. Shipping to customers is still being targeted for July 2006 at a rate of between 100,000 and 150,000 tonnes per month.

The company has reviewed the carrying value of its investment in Nilnav Orthopaedics Pty Ltd . The Directors have formed the view that a provision for impairment of the value of this investment is warranted due to no cash flows having yet been received in relation to the investment and the lack of quantifiable future cash flows rendering the valuation of the investment impractical. The effect of the provision is an expense of $3,328,830 for the period. Whilst the asset is now carried at a NIL value, Directors are hopeful that progress in relation to the investment will be made to the point that future cash flows can be reliably quantified and that the asset will prove to be beneficial to the company in the future.

Signed in accordance with a resolution of the directors made pursuant to s 306(3) of the Corporations Act 2001 on 14 March 2006.

……………………………..
PHILLIP THOMAS

Director

14 March 2006

Melbourne

Deloitte

Deloitte Touche Tohmatsu
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The Board of Directors
Admiralty Resources NL
Level 14, 200 Queen Street,
Melbourne, VIC 3000

14 March 2006

Dear Board Members

Re: Admiralty Resources NL - Auditors' Independence Declaration

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Admiralty Resources NL.

As lead audit partner for the review of the financial statements of Admiralty Resources NL for the half-year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Deloitte.

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Independent review report to the members of Admiralty Resources NL

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, summary of significant accounting policies and other explanatory notes and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 5 to 22. The consolidated entity comprises both Admiralty Resources NL (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial 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 have performed an independent review of the financial report 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 is not presented fairly in accordance with the Corporations Act 2001 and Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", so as to present a view which is consistent with our understanding of the Consolidated Entity's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows, and in order for the Consolidated Entity 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. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Qualification

AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" requires an entity to use the same accounting policies in its opening Australian-equivalents-to-IFRSs balance sheet and throughout all periods presented in its first Australian-equivalents-to-IFRSs financial report.

Accounting Standard AASB 136 "Impairment of Assets" requires an asset to be written down to its recoverable amount when its carrying value is greater than its recoverable amount. As at the dates of the opening Australian-equivalents-to-IFRSs balance sheet, 31 December 2004 and 30 June 2005 we were unable to obtain sufficient appropriate audit evidence of the recoverable amount of the investments and receivables set out below and, accordingly, we were unable to determine whether the recoverable amounts of the investments and the receivables are at least equal to their carrying values at those dates. We are however able to determine the recoverable amounts of the investments and receivables as at 31 December 2005 and we are satisfied that such carrying amounts do not exceed their recoverable amount as at 31 December 2005.

As at the dates of the opening Australian-equivalents-to-IFRSs balance sheet, 31 December 2004 and 30 June 2005,

- In the event that the carrying values of the investments and receivables exceeded their recoverable amounts, it would have been necessary for the carrying values of the investments and receivables to be written down to their recoverable amounts.
- In the event that an impairment loss was recognised, it would have been necessary to assess whether there is any indication that the impairment loss recognised in prior periods may no longer exist.

For the reasons set out above, we are unable to determine whether any such impairment write-downs, or reversals of write-downs, would have been necessary at 31 December 2004 and 30 June 2005.

The balances referred to above are:

- The receivable from and investment in an associate, SCMSB, with respective carrying values of $2,598,566 and $11,581,465, at 30 June 2005
- The investment in Nilnav Orthopaedics Pty Limited with a carrying value of $3,328,830 at 1 July 2004, 31 December 2004 and.30 June 2005.

Qualified Statement

In our opinion, except for the effects on the A-IFRS transitional balance sheet at 1 July 2004, the comparatives for the 30 June 2005 balance sheet or the 31 December 2004 income statement and statement of changes in equity, and any consequential effects on the current period of such adjustments, if any, as might have been determined to be necessary had the limitation on the scope referred to in the qualification paragraph not existed, based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Admiralty Resources NL is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without further qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(b) "Going Concern", there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders
Partner
Chartered Accountants
Melbourne
14 March 2006

ADMIRALTY RESOURCES NL
A.C.N. 010 195 972
DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

The directors declare that:

(a) in the directors opinion, there are reasonable grounds to believe that the disclosing entity will be able to pay its debts as and when they become due and payable; and

(b) in the directors opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act, 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with the resolution of the directors made pursuant to s.303(5) of the Corporations Act, 2001.

Phillip Thomas
Director

14 March 2006

Melbourne

ADMIRALTY RESOURCES NL
CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Consolidated	
	Half-year ended	
	31 December 2005 $	31 December 2004 $
REVENUES		
Interest Receivable – SCMSB	160,865	-
Other Income	4,703	889
	165,568	889
EXPENSES		
Depreciation expense	(2,878)	(9,573)
Employee costs	(51,251)	(46,234)
Consultancy expenses	(266,591)	(303,410)
Professional expenses	(129,013)	(91,179)
Occupancy expenses	(1,810)	(46,897)
Communication expenses	828	(64,681)
Travel expenses	(164,443)	(2,345)
Finance costs	(1,127,579)	-
Exploration expenses	-	(20,460)
Administration expenses	(287,664)	(42,893)
Loss on disposal of asset	(7,187)	-
Loss on equity accounting	(317,354)	-
Provision for impairment – Nilnav investment	(3,328,830)	-
Loss on exchange translation	(188,916)	-
	(5,872,688)	(627,672)
LOSS BEFORE INCOME TAX	(5,707,120)	(626,783)
Income tax expense	-	-
LOSS AFTER INCOME TAX	(5,707,120)	(626,783)
LOSS FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY	(5,707,120)	(626,783)
Basic and diluted loss per share (cents per share)	(1.12)	(0.14)

The above statement of financial performance is to be read in conjunction with the attached notes.

ADMIRALTY RESOURCES NL
CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Consolidated	
CURRENT ASSETS	**31 December 2005 $**	**30 June 2005 $**
Cash assets	503,942	970,072
Receivables	32,806	46,112
Other financial assets	3,600	3,600
Other assets	15,483	612,432
TOTAL CURRENT ASSETS	555,831	1,632,216
NON-CURRENT ASSETS		
Receivables	5,518,927	2,598,566
Other financial assets	11,264,111	14,910,295
Property, plant and equipment	16,702	39,721
Exploration and evaluation expenditure	1,632,946	1,484,065
Other	857,471	-
TOTAL NON-CURRENT ASSETS	19,290,157	19,032,647
TOTAL ASSETS	19,845,988	20,664,863
CURRENT LIABILITIES		
Payables	5,055,981	4,667,421
TOTAL CURRENT LIABILITIES	5,055,981	4,667,421
NON-CURRENT LIABILITIES		
Converting note	8,894,489	9,359,020
TOTAL NON-CURRENT LIABILITIES	8,894,489	9,359,020
TOTAL LIABILITIES	13,950,470	14,026,441
NET ASSETS	5,895,518	6,638,422
EQUITY		
Contributed equity	30,104,087	25,119,877
Foreign Currency Translation Reserve	(19,994)	-
Accumulated losses	(24,188,575)	(18,481,455)
TOTAL EQUITY	5,895,518	6,638,422

The above statement of financial position is to be read in conjunction with the attached notes.

ADMIRALTY RESOURCES NL
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

Half year to 31 December 2005	**Equity**	**Foreign Currency Translation Reserve**	**Retained Earnings**	**Total**
	$	$	$	$
Total equity at the beginning of the half-year	25,119,877	-	(18,481,455)	6,638,422
				-
Add:				-
Issue of new shares	1,000,000	-	-	1,000,000
Conversion of Options	2,500,000	-	-	2,500,000
Conversion of Options	1,500,000	-	-	1,500,000
Less:				
Adjustment in equity – convertible notes	(15,790)			(15,790)
Foreign Currency Translation Reserve	-	(19,994)	-	(19,994)
Loss for the period	-	-	(5,707,120)	(5,707,120)
Total equity at the end of the half-year	30,104,087	(19,994)	(24,188,575)	5,895,518

Half year to 31 December 2004	**Equity**	**Foreign Currency Translation Reserve**	**Retained Earnings**	**Total**
	$	$	$	$
Total equity at the beginning of the half-year	20,420,522	-	(15,519,656)	4,900,866
Add:				
Issue of new shares	-	-	-	-
Conversion of Options	-	-	-	-
Conversion of Options	-	-	-	-
Foreign Currency Tranlation Reserve	-	-	-	-
Adjustment in equity - others	-	-	-	-
Less:				
Adjustment in equity – convertible notes	-			-
Less: Loss for the period	-	-	(626,783)	(626,783)
Total equity at the end of the half-year	20,420,522	-	(16,146,439)	4,274,083

The above statement of cash flows is to be read in conjunction with the attached notes.

ADMIRALTY RESOURCES NL
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Consolidated	
	Half-year ended	
	31 December 2005 $	31 December 2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(990,135)	(226,762)
Interest received	4,693	889
GST refunded	86,859	11,587
GST (paid)	(73,553)	(46,886)
Interest and other costs of finance paid	(183,043)	-
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(1,155,179)	(261,172)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment of security deposits	-	(17,175)
Amounts advanced to associate	(2,920,361)	-
Payment of development & exploration interest	(533,119)	-
Purchase of Rapé Mine	(857,471)	-
Payment of mining tenement exploration	-	(100,874)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(4,310,951)	(118,049)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	90,000
Proceeds from issues of equity securities	5,000,000	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	5,000,000	90,000
NET DECREASE IN CASH HELD	(466,130)	(289,221)
Cash at beginning of the half-year	970,072	355,742
CASH AT THE END OF THE HALF YEAR	503,942	66,521

The above statement of cash flows is to be read in conjunction with the attached notes.

NOTE 1 BASIS OF PREPARATION

(a) Basis of Accounting

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 134 “Interim Financial Reporting”. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half year financial report does not include notes of the type normally included in an annual financial report and is to be read in conjunction with the financial report for the year ended 30 June 2005 and any public announcements made by Admiralty Resources NL during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition. The transition from superseded policies to A-IFRS has not affected the consolidated entity’s financial position, financial performance and cash flows. The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet as at 1 July 2004, the consolidated entity’s date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information and the impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in note 1(u).

(b) Going Concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the reasons described below, there is significant uncertainty whether the consolidated entity will continue as a going concern:-

- The consolidated has incurred a net loss of $ 5.7 million and has accumulated losses of $ 24.19 million;
- The consolidated entity is yet to generate revenue from its operations and has negative operating cash flows of $ 1.1 million;
- The consolidated entity requires further investment of $ 7.9 million before the operations start generating revenue.

The ability of the Consolidated Entity to continue as going concern is dependent upon a number of factors, one being the continuation and availability of funds. To this end, the Consolidated Entity has entered into negotiations for the following funding arrangements during the period since the last annual financial report 2005:

Facility 1: Short Term Loan

- Lender: Leverage Equity Capital.
- Amount: $500,000
- Term: 60 days repayable at any time.
- Interest Rate: 12.5% per annum.
- Draw Down: Funds drawn on 15 February 2006.

Facility 2: Issue of Series A Convertible Loan

- Purchaser: Cornell Capital Partners Offshore, L.P.
- Amount: US$3,000,000
- Term: 540 days repayable at any time, or can be converted at any time into shares.
- Repayment: 180 days interest paid in advance after which interest only repayments on a monthly basis.
- Interest Rate: 8% per annum.
- Draw Down: Funds available 14 days from execution of agreement in March 2006.

Other additional funding avenues are also currently being negotiated by management.

If entered into, it is anticipated that the US$3 million loan facility will be repaid from a number of sources. The Consolidated Entity has lent money for working capital to its joint venture entity in Chile, Sociedad Contractual Minera Santa Barbara (SCMSB). Pursuant to Clause 4.1 of the Loan Agreement dated 18 February 2005, on the last day of each month, SCMSB must pay any net income before tax to the Consolidated Entity, subject to cash being available and if it has capacity to do so. Given that the first shipment of iron ore is expected to take place in July 2006, with projected net income before tax being US$1.5 million per month, the Consolidated Entity will have sufficient funds to repay the loan in accordance with the loan agreement.

Secondly, the Consolidated Entity, as detailed in the review of operations, is expected to receive an income stream (50% entitlement) from the sale of iron ore equivalent to approximately $0.825 million per month, the receipt of which will assist the Consolidated Entity in meeting its ongoing commitments as and when they fall due. Production of iron ore and shipment thereof at 125,000 tonnes per month is sustainable for at least 4 years based on stockpile reserves alone not to mention iron ore to be extracted from existing mines. The first shipment is anticipated for the first quarter of the 2007 financial year.

Lastly, the Consolidated Entity has the ability to defer certain expenditure with regards to the Boric Acid and Sodium Sulphate projects in Argentina, if this is necessary, which will conserve some of the Consolidated Entity's cash flow.

At the date of this report and having considered the above factors, the directors are confident that the company will be able to continue as a going concern. Notwithstanding this there is significant uncertainty whether the consolidated entity will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report

Should the Consolidated Entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities and appropriate disclosures that may be necessary should the Consolidated Entity be unable to continue as a going concern.

(c) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A controlled entity is any entity controlled by Admiralty Resources NL. Control is as defined in Accounting Standard AASB 127. Control exists where Admiralty Resources NL has the powers to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all inter company balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

(d) Mining Tenements

Mining tenements are shown at cost. Ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. If an area of interest is abandoned or is considered to be of no further commercial interest, the mining tenement costs relating to the area are written off against income in the year of abandonment.

(e) Exploration and Evaluation Expenditure

Expenditure represents direct costs incurred. Costs are accumulated in respect of areas of interest still in the exploration and/or evaluation phase where they have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. If an area of interest is abandoned or is considered to be of no commercial interest the accumulated exploration costs relating to the area are written off against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of economically recoverable reserves. Any costs of site restoration are provided for in the production stages and included in the costs of that stage.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(f) Financial Assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements.

Other financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

(g) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(h) Property, Plant and Equipment

Property, plant and equipment are carried at cost less, where applicable, any accumulated depreciation and impairment.

Plant and Equipment

Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation

The depreciable amount of all fixed assets are depreciated over their useful lives to the consolidated entity using the diminishing value or prime cost method, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The useful lives used for each class of depreciable assets are:-

Class of Fixed Asset	**Useful Life**
Office Furniture	9 yrs
Leasehold Improvements	6 yrs
Plant & Equipment	4 – 8 yrs
Motor Vehicles	4 – 7 yrs

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal and is included in the result before income tax of the company in the year of disposal.

(i) Converting Notes

Converting notes are recorded initially at fair value, net of transactions costs. Interest expense is recognised on an accrual basis. Subsequent to initial recognition, these are measured at amortised costs with any difference between the initial recognized amount and the redemption value being recognized in the profit and loss over the period of the converting note using the effective interest method.

(j) Cash

For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions.

(k) Employee Benefits

Provision is made for the employee benefits arising from services rendered by employees to balance date. Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Employee entitlements expected to be settled within one year, have been measured at their nominal amount, whilst those not expected to be settled within one year are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of those services provided by employees up to the reporting date.

Contributions are made by the consolidated entity to defined contribution superannuation funds and are expensed when incurred.

(l) Revenue Recognition

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(m) Accounts Payable

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Foreign Currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are brought to account in the profit and loss in the period in which they arise except that:

- exchange differences which relate to assets under construction for future productive use are included in the cost of those assets; and
- exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of net investment in a foreign operation, are recognized in the foreign currency translation reserve and recognized in the profit or loss on disposal of the net investment.

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

The financial statements of foreign subsidiaries, associates and jointly controlled entities that report in the currency of a hyperinflationary economy are restated in terms of the measuring unit current at the reporting date before they are translated into Australian dollars.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date.

Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

(o) Leased assets

Leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the fair value or, if lower, at amounts equal to the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

(p) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(q) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(r) Financial Instruments Issued by the Company

Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Compound Instruments

The component parts of compound instruments are classified separately as liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible debt. The equity component initially brought to account is determined by deducting the amount of the liability component from the amount of the compound instrument as a whole.

Transaction Costs on the Issue of Equity Instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with

the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and Dividends
Interest and dividends are classified as expenses or as distributions of profit consistent with the classification in the statement of financial position of the related debt or equity instruments or component parts of compound instruments.

(s) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to, the taxation authority is classified as operating cash flows.

(t) Tax consolidation

Legislation to allow groups, comprising a parent entity and its Australian resident, wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

At the date of this report the directors have not elected to be taxed as a single entity. The financial effect of the implementation of the tax consolidation system on the company and consolidated entity has not been recognised in the financial statements.

(u) Financial instruments comparative period information

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 Financial Instruments : Disclosure and Presentation and AASB 139 Financial Instruments : Recognition and Measurement, as permitted on the first-time adoption of A-IFRS. The effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005 is to reduce the convertible note financial liability and reduce the other assets by $ 996,670 with no net asset or profit or loss impact. This takes account of netting off of transaction costs against the borrowing (the convertible note).

NOTE 2 SIGNIFICANT AFTER BALANCE DATE EVENTS

The Company has entered into negotiations for securing funding to continue operations as disclosed in Note 1 (b) above. Apart from that, no other significant after balance date events have occurred since the half year ended 31 December 2005.

NOTE 3 ISSUES OF EQUITY SECURITIES

Movements in issued and fully paid up ordinary shares of the company during the half – year were as follows:

Details	Number of Shares	Issue Price	Value $
Opening Balance	490,342,630	n/a	24,420,522
Exercise of Options	25,000,000	$0.10	2,500,000
New Issue	16,666,667	$0.06	1,000,000
Exercise of Options	15,000,000	$0.10	1,500,000
Closing Balance	547,009,297	n/a	29,420,522

Movements in the options of the company during the half - year were as follows:

Details	Number of Options	Value $
Opening Balance	150,000,000	15,000,000
Options exercised	(40,000,000)	(4,000,000)
Closing Balance	110,000,000	11,000,000

There were no movement in shares/ options during the previous half-year.

<u>Subsequent Issues of Shares and Options</u>
No subsequent issues of Shares and Options have occurred since the half year ended 31 December 2005.

NOTE 4 CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities in existence at the date of this report.

NOTE 6 SEGMENT INFORMATION

Primary reporting – Geographical segments

The consolidated entity operates in three geographical locations, Australia, Argentina and Chile.

	Australia		Argentina		Chile		Eliminations		Consolidated Entity	
	Half-year ended 31 December									
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$	$	$
Revenue										
External revenue	165,567	-	-	-	-	-	-	-	165,567	-
Unallocated revenue	-	899	-	-	-	-	-	-	-	899
Total revenue from ordinary activities	165,567	899	-	-	-	-	-	-	165,567	899
Result										
Segment result	(5,344,384)	(577,824)	(45,382)	(48,959)	(317,354)	-	-	-	(5,707,120)	(626,783)
Unallocated expenses	-	-	-	-	-	-	-	-	-	-
Operating profit before income tax	(5,344,384)	(577,824)	(45,382)	(48,959)	(317,354)	-	-	-	(5,707,120)	(626,783)