

# Frequently Asked Questions



## Deed Administrator's Update to Shareholders

Macmin Silver Limited (Subject to Deed of Company Arrangement)

ACN 056 776 160

ASX code: MMN ("Macmin")

31 July 2009

### What is the status of the sale of Macmin?

Macmin and its wholly owned subsidiary, Texas Silver Mines Pty Ltd ACN 002 789 380 (Subject to Deed of Company Arrangement) ("Texas Silver"), have executed a Recapitalisation Deed with a syndicate of investors including Cygnet Capital Pty Ltd ACN 103 488 606 and Alcyone Mining Limited ACN 135 177 918 ("the Syndicate") which will see fresh funds invested into Macmin and the companies continue in existence.

The Syndicate has prepared a detailed plan to conduct independent reviews of the operations of the companies' major asset, the Twin Hills Mine, including a metallurgical review and scoping study, in order to determine what is required to optimise the operations of the mine such that it is a commercially viable / profitable operation. The Syndicate believe that the mine can be viable and it is its intention (subject to the results of the independent reviews) to recommence mining operations. At the same time as the reviews of the Twin Hills Mine are being conducted, the Syndicate will be reviewing the other assets of Macmin and Texas Silver, including the other tenements within its portfolio, and looking at other options that may complement Macmin's current interests.

A summary of the material terms of the Recapitalisation Deed is annexed to this announcement.

### What is the process from here?

It is a conditions precedent that creditors of both Macmin and Texas Silver approve the Recapitalisation Deed and resolve that the companies vary their existing Holding DOCAs in order to facilitate implementation of the Recapitalisation Deed. It is also a conditions precedent that the shareholders of Macmin approve the Recapitalisation Deed.

In this regard, the Deed Administrator has issued a report to creditors of Macmin and Texas Silver convening a meeting for Thursday, 6 August 2009 to consider and if thought fit approve the Recapitalisation Deed. In his report, the Deed Administrator has recommended that creditors approve the Recapitalisation Deed on the basis that it provides the best return to all stakeholders, including creditors and shareholders. I note that the major creditor of Macmin (whose approval is required for any proposal to be successful) has agreed to vote in favour of the Recapitalisation Deed.

If creditors approve the Recapitalisation Deed, the Deed Administrator will then convene a meeting of shareholders of Macmin to consider and if thought fit

approve the Recapitalisation Deed. It is expected that the shareholders' meeting will be held in late September / early October 2009. A Notice of Meeting and Explanatory Statement containing full details of the Recapitalisation Deed will be sent to all shareholders prior to the meeting.

Assuming that the requisite creditor and shareholder approvals are obtained and Macmin satisfy any conditions that the ASX have prior to approving the reinstatement of Macmin's securities, it is anticipated that Macmin will be requoted on the ASX as soon as possible following the shareholders' meeting.

### Who can I contact for more information?

The Deed Administrator will continue to provide further updates to shareholders by way of announcements to the ASX. Shareholders with further queries should refer to the Deed Administrator's previous announcements. Any other urgent queries should be directed to Pitcher Partners in Perth.

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Deed Administrator

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## Material terms of the Recapitalisation Deed

### *Restructure / recapitalisation*

- The existing share capital of Macmin will be consolidated on a 1 for 20 basis.
- The cash consideration (detailed below) will be raised through one or more capital raisings by Macmin coordinated by the Syndicate. The Syndicate and its associated parties will provide all of the funds required for the capital raisings.
- The capital raisings will be as follows:
  - 150 million shares (with 1 for 1 free attaching options with an exercise price of \$0.01 per option and an expiry date 3 years from the date of issue) at \$0.001 to raise \$150,000 (the Syndicate reserves the right to accept costs incurred to date in lieu of the \$150,000 cash payment).
  - 350 million – 400 million shares at an issue price of not less than \$0.01 per share to raise a minimum of \$3.5 million to a maximum of \$4 million.
- All of the existing directors of the Companies are to resign or be removed by the Deed Administrator and will be replaced by nominees of the Syndicate (with powers limited to lodging a prospectus and undertaking a capital raising) prior to settlement such that a prospectus to raise the capital detailed above can be lodged with ASIC and ASX as required.
- The creditors will release the Companies from all claims and their right to claim against the Companies will be replaced with a right of equal value to claim as beneficiaries against the Creditors' Trust.
- The Deed Administrator will become the Trustee of the Creditors' Trust and will administer the Creditors' Trust in accordance with the Trust Deed. Specifically, the Trustee will realise the assets of the Creditors' Trust and declare and distribute these funds as soon as is practicable and in the best interests of the creditors/beneficiaries.
- The majority creditor, YA Global L.P. ("YA Global"), has agreed to vote in favour of the recapitalisation proposal.

### *Consideration*

- Macmin will pay up to \$1 million in cash from the capital raising coordinated by the Syndicate on achievement of the following milestones:
  - \$500,000 within 5 business days of satisfaction or waiver of the condition precedents to the recapitalisation deed (refer below for details of the condition precedents) ("First Instalment") ("Settlement").
  - \$500,000 upon recommencement of Commercial Silver Production (defined as the restart of continuous Commercial Silver Production from the Twin Hills mine post recommissioning of the redesigned processing facility).
  - If however the Macmin board does not pass a resolution to commence Commercial Silver Production within 18 months of Settlement, it will pay the Creditors' Trust \$150,000 and issue it with further New Shares in Macmin so that it has been issued with shares equal to 15% of the capital of Macmin at reinstatement (capped at 67,744,988 shares which is what would be

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required to be issued if the Syndicate raises \$3.5 million) in lieu of the payment of the second \$500,000 ("Second Instalment").

- YA Global has agreed to allow all creditors of the Companies excluding YA Global ("Minority Creditors"), to receive their full entitlement to the total cash consideration paid under the Recapitalisation Deed on payment of the First Instalment. Accordingly, based on claims received to date, Minority Creditors will be entitled to receive \$245,902 of the First Instalment paid on Settlement. YA Global will then be entitled to receive the balance of the First Instalment paid on Settlement and all of the Second Instalment when this becomes due and payable.
- Macmin reimburse the Creditors' Trust the costs that were incurred in the care and maintenance of the Twin Hills mine during the period between execution of the recapitalisation deed and Settlement up to a maximum of:
  - \$200,000 (including GST) if Settlement occurs on or before 19 October 2009; or
  - \$235,000 (including GST) if Settlement occurs after 19 October 2009 but before the End Date (being 2 November 2009 or such later date as the parties agree) ("the Care and Maintenance Costs").

The Care and Maintenance Costs will be paid in 2 equal instalments, the first to be paid on Settlement and the second to be paid at the same time as the Second Instalment (i.e. on payment of the second \$500,000 or the payment in lieu should Commercial Silver Production not recommence within 18 months of Settlement, whichever ever occurs first).

- On Settlement Macmin will also issue the Creditors' Trust with 25 million New Shares in the recapitalised entity at a deemed issue price of \$0.01 per share. These shares will not be subject to any voluntary escrow provisions.
- Macmin will pay a Gross Smelter Return royalty of 3% on silver production, capped at a maximum of 6 million ounces of silver for silver production from 1 million to 7 million ounces from the Twin Hills Mine.

This royalty will be split into two separate royalty agreements – the first in favour of the Creditors' Trust for the benefit of Minority Creditors and the second in favour of YA Global calculated based on the claims of the Minority Creditors and YA Global as a percentage of total creditor claims received against the Companies to date. In this regard, of the total royalty to be paid by Macmin under the recapitalisation proposal, the Creditors' Trust will be entitled to receive 0.7377% and YA Global will be entitled to receive 2.2623% ("YA Global Royalty").

- The Companies will retain all of their assets, other than Excluded Assets, which are to be transferred to the Creditors' Trust.
- Excluded assets are:
  - Any cash held by the Companies at Settlement (excluding any cash held as backing for the environmental bonds in respect of the Companies

tenements and any cash raised under the Capital Raising or through the issue of the Promoter Shares).

- All outstanding accounts receivable of the Companies at Settlement.
  - Any silver powder held at the Twin Hills Mine site as well as any silver powder or silver bullion held by Siltech Pty Ltd or CMA Recycling Pty Ltd or in transit at Settlement.
  - The shares held by Macmin in New Guinea Gold Corporation, Frontier Resources Limited and Malachite Resources Limited.
  - The New Guinea Gold Royalty.
  - The allowable research and development tax offset refunds for the 2006, 2007 and 2008 income tax years. To the extent that these tax refunds cannot be transferred to the Creditors' Trust, Macmin will hold these on trust and pay the equivalent of the refund received to the Creditors' Trust within 5 Business Days of receiving same.
  - All choses in action (being a right that the Companies' have to commence litigation) available to the Companies at Settlement.
- Macmin will grant YA Global a first ranking charge over the Twin Hills Farm Freehold Property as security for payment of its obligations to YA Global for the Second Instalment and the YA Global Royalty. This charge is provided in favour of YA Global as it is allowing Minority Creditors to participate for the full extent of their entitlement to the cash consideration to be paid by Macmin on payment of the First Instalment (i.e. in advance of the Second Instalment).
  - Macmin will provide YA Global with a first right of refusal to participate in any debt financing contemplated by Macmin, on matching commercial terms that have been negotiated with other parties until Macmin satisfies all of its obligations. Macmin will also allow YA Global proportional redemption *pari passu* with any other debt provider on the same defined debt.
  - All employees of the Companies being terminated without any liability to the Company post settlement except for potentially 3 to 4 employees that may be retained by the Company under conditions to be specified by the Company.
  - The Syndicate will take on all equipment leases and the home loan in respect of the property at 22 Severn Street, Texas, 4385.

#### *Conditions Precedent*

- The creditors of Macmin and Texas resolve to vary the Macmin DOCA and the Texas DOCA respectively to facilitate the Recapitalisation Deed.
- ASX confirming that it will lift the suspension on the trading of Macmin shares immediately following settlement on terms satisfactory to the Syndicate and the Deed Administrator.
- Obtaining the necessary Macmin shareholder approvals at a meeting of the shareholders to facilitate the Recapitalisation Deed.
- Macmin receiving valid applications under the Prospectus together with cleared funds for a minimum of \$3.5 million.