HERENCIA RESOURCES PLC

ANNUAL REPORT AND ACCOUNTS

PERIOD ENDED 30 JUNE 2006

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors	Michael Bohm (Executive) John Moore (Non-Executive) John Russell (Non-Executive)
Company Secretary	John Bottomley
Registered Office	30 Farringdon Street London EC4A 4HJ
Principal Operating Office	Level 22 Allendale Square 77 St Georges Terrace Perth 6000, Western Australia
Company Number	5345029
Auditors	UHY Hacker Young Chartered Accountants St Alphage House 2 Fore Street London EC2Y 5DH
Solicitors	Watson, Farley & Williams LLP 15 Appold Street London EC2A 2HB
Registrars	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH
Principal Bankers	ANZ Bank 77 Georges Terrace Perth WA 6000 Barclays Bank plc 7th Floor United Kingdom House 180 Oxford Street London W1D 1EA

DIRECTORS' REPORT
FOR THE PERIOD ENDED 30 JUNE 2006

The Directors present their Directors' report together with the audited accounts of the Company ("Herencia Resources plc") and the Group ("Herencia Resources Plc and its subsidiary undertakings") for the period from incorporation on 27 January 2005 until 30 June 2006.

Principal activity

The Company is registered in England and Wales, having been incorporated on 27 January 2005 under the Companies Act with registered number 5345029 as a public company limited by shares.

The principal activity of the Group is mineral exploration. The Group operates through its parent and subsidiary undertakings, details of which are set out in the note 12 to these accounts.

Review of the business and future prospects

The Company was originally listed on Alternative Investment Market ("AIM") in March 2005 as an investment company. On 22 November 2005, the Company was readmitted to AIM as a resources company following the completion of the acquisition of the entire issued share capital of Tarapaca Resources (Bermuda) Limited ("Tarapaca") from Australian listed Mineral Securities Limited ("MinSec") on 21 November 2005. The acquisition secured the ownership of a portfolio of silver-zinc-copper-gold exploration properties in South America.

The wholly owned subsidiary of Tarapaca, Iquique Resources (Chile) SA, entered into a joint venture agreement with Compania Minera Costa Rica and Compania Minera Santa Lucia Limitada in respect of the silver-copper Iquique Project on 26 July 2005. This gave it the right to earn up to 70% of the Iquique Project by contributing US$2 million towards the Iquique Project's exploration activities. The Group must contribute US$0.5 million within 18 months to earn a 50% interest in the project. To retain that interest and increase its interest to 70%, it must spend a further US$1.5 million within 36 months.

The wholly owned subsidiary of Tarapaca, Paguanta Resources (Chile) SA, also entered into a joint venture agreement with Compania Minera Costa Rica in respect of the silver-zinc-copper-gold Paguanta Project on 29 June 2005. This gave it the right to earn up to 70% of the Paguanta Project by contributing US$2 million towards the Paguanta Project's exploration activities. The Group must contribute US$0.5 million within 18 months to earn a 50% interest in the project. To retain that interest and increase its interest to 70%, it must spend a further US$1.5 million with 36 months.

The Iquique Project and the Paguanta Project occupy an area with known mineralised systems and the Directors believe they represent a compelling exploration opportunity. These Projects contain numerous ancient workings, some of which date back to the Inca Empire and more recent European settlement. Importantly, the Projects appear to have had no significant modern exploration. These Projects are prospective for open pit bulk tonnage resources comprising vein, stockwork, manto, skarn and porphyry style silver-zinc-copper-gold mineralization.

Exploration in Chile commenced in November 2005 with a work program and drilling of the Iquique project area. The exploration and drilling activities currently being undertaken are focussed on the Paguanta project. Further information on the Projects and the Company can be found at www.herenciaresources.com.

The Directors have reviewed the affairs and operations of the Group and believe them to be fair and reasonable in accordance with the current status of the Group as a mineral exploration company. During the period the Group has expended £386,129 on exploration and development of the Iquique and Paguanta Projects. The results of the work undertaken to date warrant the continuation of the exploration of the Iquique and Paguanta Projects.

The Group's primary business is mineral exploration and is subject to risks including discovery of economic mineral resources, delays in work programme plans and schedules, changes in market conditions affecting the resources industry or commodity price levels, the outcome of commercial negotiations and technical or operating factors, political, environmental and regulatory controls and approvals, and availability and retention of suitable employees and consultants. Any one or more of these risk factors could have a materially adverse impact on the value of the Company.

On 5 October 2006, the Company has entered into an Alliance Agreement with Mineral Securities Limited ("Minsec") where the Group will utilise its established office and technical team based in Chile together with Minsec's technical and commercial team based in Perth. Minsec will provide Herencia with access to its experienced team of geological, mining and commercial personnel to assist Herencia in both the evaluation and potential future development of any new resource opportunities.

Under the alliance Agreement Minsec agrees to help identify and advise the Company on potential mineral resource opportunities within South America. The Company will evaluate additional projects on a case by case basis and make further acquisitions, if these are perceived to have the potential to add value.

Results and dividends

The Group results for the period are set out on page 10. The Directors do not propose to recommend any distribution by way of a dividend for the period ended 30 June 2006.

Group structure and changes in share capital

Details of movements in share capital during the period are set out in note 13 to these accounts.

Directors

The following Directors held office during the period:

Michael Bohm (Executive)	Appointed 14 June 2006
John Moore (Non-Executive)	Appointed 14 June 2006
John Russell (Non-Executive)	Appointed 14 June 2006
Ross Warner (Non-Executive	Appointed 27 January 2005 - Resigned 13 September 2006
Anthony Barton	Appointed 27 January 2005 - Resigned 14 June 2006
Keith Liddell	Appointed 21 November 2005 - Resigned 14 June 2006

Directors' interests

The beneficial and non-beneficial interests in the Company's shares of the Directors and their families were as follows:

Name	30 June 2006 Number of ordinary shares of Ordinary shares of £0.001	27 January 2005 Number of ordinary shares of Ordinary shares of £0.001
Michael Bohm, John Russell and John Moore [1]	116,666,667	-
Michael Bohm [2]	450,000	-
John Moore [3]	666,667	-

[1] Michael Bohm and John Moore's interests are through 116,666,667 shares held by Mineral Securities Limited. Michael Bohm is a shareholder of Mineral Securities Limited. John Russell is a shareholder of Mineral Securities Limited. .John Moore is a director and shareholder of Mineral Securities Limited.

[2] In addition to Michael Bohm's interest through Mineral Securities Limited as referred to above, Michael Bohm also has an direct interest in 450,000 shares.

[3] In addition to John Moore's interest through Mineral Securities Limited as referred to above, John Moore also has an interest in 666,667 shares held by Ralsten Pty Ltd. John Moore is a director and shareholder of Ralsten Pty Ltd.

Report on Directors' remuneration and Service Contracts

The service contracts of all the existing Directors are subject to a one month termination period. Under the contracts, each Director during the reporting period was paid £12,000 per annum. From 1 July 2006, each Director will be paid £15,000 per annum.

Pensions

The Group does not operate a pension scheme for Directors or employees.

Directors' Remuneration

Remuneration of Directors was as follows:

	Fees/basic salary £	Employers NI £	Benefits in kind £	2006 Total £
Executive				
Anthony Barton	17,000	-	-	17,000
Non-Executive				
Ross Warner	22,000	2,340	-	24,340
Keith Liddell	7,000	-	-	7,000
	46,000	2,340	-	48,340

Substantial Shareholders

The Company has been notified, in accordance with Sections 198 to 202 of the Companies Act 1985, of the under noted interests in its ordinary shares as at 9 October 2006:

	Number of Ordinary shares	**% of Share Capital**
Mineral Securities Limited [1]	116,666,667	49.0
Australian Heritage Group Pty Ltd	37,500,000	15.8
Strategic Capital Fund	12,000,000	5.0
New Capital Fund	6,500,000	2.7

[1] Pursuant to the agreement for the acquisition of the Tarapaca Group of Companies, there are a further 50,000,000 Ordinary Shares at £0.01 per share that may be allotted to Mineral Securities Limited subject to certain performance criteria. The performance criteria are the investment by the Group of at least US$2,000,000 in the Projects within 36 months of the date of the Acquisition Agreement or the Group disposing of a majority interest in either of the Projects.

Supplier payment policy

The Company's policy is that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with.

Political and charitable contributions

There were no political or charitable contributions made by the Company during the period ended 30 June 2006.

Subsequent events

On 10 July 2006, the Company completed a capital raising to raise £571,000 from the issue of 38,066,667 ordinary shares at a price of 1.5p per share. On 30 October 2006, the Company completed a further capital raising to raise £900,000 from the issue of 90,000,000 ordinary shares at a price of 1p per share. The Company proposes to apply the funds, in conjunction with the existing cash reserves, to fund:

- Advance the work program and follow-up drilling on the Iquique Project;
- Follow-up on the drilling program due to commence shortly at the Paguanta Project;
- Pursue new project development opportunities; and
- Fund general working capital requirements.

On 5 October 2006, the Company entered into an Alliance Agreement with Mineral Securities Limited. Details of the agreement are included in the Directors review of the business and future prospects.

Environment Policy Statement

While at 30 June 2006, the Company is not an Operator of any exploration projects, it closely monitors activities to ensure to the best of its knowledge there is no potential for any breach of environment's regulations. There have been no convictions in relation to breaches of the local Chilean regulations recorded against the Group during the reporting period.

Statement of directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Directors at the time of approval of the report are aware:

1. there is no relevant audit information of which the Company's auditors are unaware; and
2. the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

UHY Hacker Young were appointed auditors to the Company and in accordance with Section 385 of the Companies Act 1985. A resolution proposing that UHY Hacker Young be re-appointed as auditors of the Company and that the Directors be authorised to fix their remuneration will be put to the next Annual General Meeting.

By order of the board

Michael Bohm **7 November 2006**
Director

INDEPENDENT AUDITORS' REPORT
FOR THE PERIOD ENDED 30 JUNE 2006

We have audited the Group and Parent company financial statements (the "financial statements") of Herencia Resources plc for the period ended 30 June 2006 which comprise the Group income Statement, the Group and Parent company balance sheets, the Group and Parent company cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and those International Financial Reporting Standards ("IFRSs") as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT
FOR THE PERIOD ENDED 30 JUNE 2006

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 30 June 2006 and of its loss for the period year then ended;

- the Parent company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent company's affairs as at 30 June 2006;

- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and

- the information given in the Directors' report is consistent with the financial statements.

UHY Hacker Young **2 November 2006**
Chartered Accountants
Registered Auditors
St. Alphage House
2 Fore Street
London EC2Y 5DH

GROUP INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2006

	Notes	Group 2006 £
Revenue		-
Cost of sales		-
Gross profit		**-**
Administration expenses		(512,267)
Operating loss	4	**(512,267)**
Finance revenue	6	20,449
Loss before taxation		**(491,818)**
Taxation	7	-
Loss for the period		**(491,818)**
Earnings per ordinary share – basic and diluted		(0.36)p

The above are the results for the period from the date of incorporation on 27 January 2005 to 30 June 2006.

All of the above amounts are in respect of continuing operations.

There are no recognised gains and losses other than those passing through the income statement.

GROUP AND COMPANY BALANCE SHEETS
AS AT 30 JUNE 2006

	Notes	Group 2006 £	Company 2006 £
ASSETS			
Non current assets			
Intangible assets	11	886,129	-
Property, plant and equipment		31,772	-
Investments	12	-	1,000,000
		917,901	1,000,000
Current assets			
Trade and other receivables	8	43,241	161,761
Cash and cash equivalents	9	160,293	154,041
		203,534	315,802
Total assets		**1,121,435**	**1,315,802**
EQUITY AND LIABILITIES			
EQUITY			
Capital and Reserves attributable to Equity holders			
Called up share capital	13	200,000	200,000
Share premium account	14	1,276,925	1,276,925
Reserve for own shares	14	82,000	82,000
Translation reserve	14	10,893	-
Retained losses	14	(491,818)	(274,703)
Total equity		1,078,000	1,284,222
Current liabilities			
Trade and other payables	10	43,435	31,580
Total liabilities		43,435	31,580
Total equity and liabilities		**1,121,435**	**1,315,802**

The financial statements were approved by the Board on 7 November 2006

Michael Bohm
Director

GROUP AND COMPANY CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2006

	Notes	Group 2006 £	Company 2006 £
Net cash outflow from operating activities	15	**(498,651)**	**(425,333)**
Cash flows from investing activities			
Interest received	6	20,449	20,449
Purchase of property, plant and equipment		(34,301)	-
Cash acquired with subsidiary undertakings		500,000	-
Net funds used for investing in exploration	11	(386,129)	-
Net cash inflow from investing activities		100,019	20,449
Cash flows from financing activities			
Proceeds from issue of shares	13	550,000	550,000
Issue costs		(73,075)	(73,075)
Proceeds from shares issued after the balance sheet date	14	82,000	82,000
Net cash inflow from financing activities		558,925	558,925
Net increase in cash and cash equivalents		**160,293**	**154,041**
Cash and cash equivalents at the beginning of the period		-	-
Cash and cash equivalents at the end of the period	9	**160,293**	**154,041**

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

1.1. Basis of preparation

The financial statements have been prepared using the historical cost convention. In addition, the financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") including IFRS 6, Exploration for and Evaluation of Mineral Resources, as adopted by the European Union ("EU") and in accordance with the provisions of the Companies Act 1985.

The group's financial statements for the period ended 30 June 2006 were authorised for issue by the board of Directors on 7 November 2006 and the balance sheets were signed on the Board's behalf by Michael Bohm.

The Group financial statements are presented in UK pound sterling.

In accordance with the provisions of the Section 230 of the Companies Act 1985, the Parent Company has not presented a profit and loss account. A loss for the period ended 30 June 2006 of £274,703 has been included in the profit and loss account.

1.2. Basis of consolidation

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

All the companies over which the Company has control apply, where appropriate, the same accounting policies as the Company.

1.2. Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange gain or loss is dealt with in the profit and loss account.

The assets and liabilities of the foreign subsidiary undertakings are translated into Sterling at the rates of exchange ruling at the year end and their results are translated at the average exchange rate for the period. Exchange differences resulting from the retranslation of net investments in subsidiary undertakings are treated as movements of reserves.

1.3. Cash and cash equivalents

The company considers all highly liquid investments, with a maturity of 90 days or less to be cash equivalents, carried at the lower of cost or market value.

1.4. Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the interim financial information. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

1.5. Exploration and development costs

All costs associated with mineral exploration and investments are capitalised on a project by project basis, pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general corporate overheads. If an exploration project is successful, the related expenditures will be transferred to mining assets and amortised over the estimated life of the commercial ore reserves on a unit of production basis. Where a licence is relinquished or project abandoned, the related costs are written off. Where the Group maintains an interest in a project, but the value of the project is considered to be impaired, a provision is made against the relevant capitalised costs.

The recoverability of all exploration and development costs is dependent upon the discovery of economically recoverable reserves, the ability of the Group to obtain necessary financing to complete the development of the reserves and future profitable production or proceeds from the disposition thereof.

Amounts recorded for these assets represent costs and are not intended to reflect present or future values.

1.6. Impairment of exploration and development costs

The carrying value of unevaluated areas is assessed on at least an annual basis or when there has been an indication that impairment in value may have occurred. The impairment of unevaluated prospects is assessed based on the Directors' intention with regard to future exploration and development of individual significant areas and the ability to obtain funds to finance such exploration and development.

2. Earnings per share

Basic earnings per share of (0.36)p for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 137,964,775.

The Company has no share warrants or options in issue.

3. Segmental information

The primary segmental reporting is determined to be geographical segment according to the location of the asset. The Directors do not believe that there is a secondary segment that could be reported. There are two reporting segments.

Geographical segment	Australia £	Chile £	Total £
Administration expenses	(295,152)	(217,115)	(512,267)
Finance revenue	20,449	-	20,449
Loss before taxation	(274,703)	(217,115)	(491,818)
Intangible assets	-	886,129	886,129
Property, plant and equipment	-	31,772	31,772
Trade and other receivables	-	43,241	43,241
Cash and cash equivalents	154,041	6,252	160,293
Trade and other payables	(31,580)	(11,855)	(43,435)
Net assets	122,461	955,539	1,078,000

At the end of the financial period, the Group had not commenced commercial production from its exploration sites and therefore had no turnover in the period.

4. Operating loss

	Group 2006 £
This is stated after charging:	
Auditors' remuneration	
- Audit	8,000
Foreign exchange gain	(5,123)

5. Directors' emoluments

	Group 2006 £	Company 2006 £
Wages and salaries	46,000	46,000
Social security costs	2,340	2,340
	48,340	48,340

There are no employees other than the Directors.

6. Finance revenue

	Group 2006 £
Bank interest	20,449

	Group 2006 £
7. Taxation	
Current tax charge	-
Deferred tax	
Deferred tax current period charge	-
	-
Factors affecting the tax charge for the period	
Loss on ordinary activities before taxation	(491,818)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax of 30.00%	(147,545)
Effects of:	
Non deductible expenses	29,947
Tax losses	117,598
Current tax charge	-

Factors that may affect future tax charges

At the balance sheet date, the Group has unused tax losses available for offset against suitable future profits. A deferred tax asset has not been recognised in respect of such losses due to uncertainty of future profit streams.

	Group 2006 £	Company 2006 £
8. Trade and other receivables		
Other receivables	43,241	-
Amount due from subsidiary undertakings	-	161,761
Prepayments and accrued income	-	-
	43,241	161,761

	Group 2006 £	Company 2006 £
9. Cash and cash equivalents		
Cash at bank and in hand	160,293	154,041

	Group 2006 £	Company 2006 £
10. Trade and other payables		
Accruals and deferred income	43,435	31,580

11. Intangible assets

	Goodwill	Exploration and development costs	Total
Cost			
Additions	500,000	386,129	886,129
At 30 June 2006	500,000	386,129	886,129
Impairment			
Impairment during the period	-	-	-
Carrying amount			
As at 30 June 2006	500,000	386,129	886,129

The exploration and development costs relate to expenditure incurred at the Iquique and Paguanta projects located in Chile, South America.

The goodwill of £500,000 arose on acquisition of Tarapaca Resources (Bermuda) Limited, a company incorporated in Bermuda (note 12).

In accordance with the accounting policy, the Directors have assessed the value of goodwill and the exploration and development costs carried in the accounts as intangible fixed assets. In the opinion of the Directors, no impairment provision is considered necessary.

12. Fixed asset investments

company name	Country of registration or incorporation	Class	Shares held %
Direct			
Tarapaca Resources (Bermuda) Limited	Bermuda	Ordinary	100
Indirect			
Tarapaca Holdings (BVI) Ltd	British Virgin Islands	Ordinary	100
Iquique Resources (Chile) SA	Chile	Ordinary	100
Paguanta Resources (Chile) SA	Chile	Ordinary	100

The principal activity of Iquique Resources (Chile) SA and Paguanta Resources (Chile) SA was mineral exploration whereas Tarapaca Resources (Bermuda) Limited and Tarapaca Holdings (BVI) Ltd are holding companies.

12. Fixed asset investments (continued)

As at the date of acquisition, the Tarapaca Group of Companies had net assets of £500,000 comprising cash at bank and joint venture agreements through its wholly owned Chilean subsidiaries to earn up to a 70% interest in the Iquique and Paguanta projects in Chile.

Details of net assets acquired and goodwill are as follows.

	£
Purchase consideration	
Issue of shares	1,000,000
Total purchase consideration	1,000,000
Fair value of net assets acquired (comprising cash only)	(500,000)
Goodwill	500,000

The fair value of assets and liabilities arising from the acquisition are as follows:

Cash at bank	500,000
Net assets acquired	500,000

On 21 November 2005, the Company acquired the entire issued capital of Tarapaca Resources (Bermuda) Limited, a company incorporated in Bermuda from Mineral Securities Limited. In accordance with the terms of the acquisition agreement on 21 November 2005, the Company issued 100,000,000 ordinary shares of £0.01 each for the purchase of the company following raising of an equity capital of £500,000 by that company. The subsidiaries of Tarapaca Resources (Bermuda) Limited have interests in two separate blocks of tenements (total area of 94 square kilometers) over the Iquique Mineral Field and one block (total area of 39 square kilometers) at Paguanta Mineral Field. As the fair values of these tenements cannot be measured reliably, the intangible assets purchased have been subsumed within the amount of the purchase consideration attributed to goodwill.

There are a further 50,000,000 shares at £0.01 per share (contingent consideration) that may be allotted to Mineral Securities Limited subject to certain performance criteria, as set out in the substantial shareholders' paragraphs in the Directors' report. A reasonable estimate of the fair value of the amount of contingent consideration expected to be payable in the future cannot be made at the period end.

	Group 2006 £	Company 2006 £
13. Called up share capital		
Authorised:		
10,000,000,000 ordinary shares of £0.001 each	10,000,000	10,000,000
Allotted, issued and fully paid:		
200,000,000 ordinary shares of £0.001 each	200,000	200,000

The following shares in the Company were issued during the period:

- 2 shares were issued at par on 27 January 2005 (the incorporation date).
- 49,999,998 shares were issued at par on 8 February 2005
- 50,000,000 shares were issued at £0.01 each on 24 February 2005
- 100,000,000 shares were issued at £0.01 on 21 November 2005

The movements in the share capital are summarised below:

	Number of shares
Issue for cash – founder members	50,000,000
Issue for cash - placement	50,000,000
Shares issued on acquisition of Tarapaca Resources (Bermuda) Limited	100,000,000
At 30 June 2006	200,000,000

Shares issued after 30 June 2006 are set out in note 17.

The share premiums arising as a result of above transactions were as follows:

	2006 £
Issue of shares for cash - placement	450,000
Issue of shares in acquisition of Tarapaca Resources (Bermuda) Limited	900,000
	1,350,000

14. Shareholders' funds and changes in shareholders' equity

Group	**Share capital £**	**Share premium £**	**Reserve for own shares £**	**Translation reserve £**	**Retained earnings £**
Issue of shares	200,000	1,350,000	-	-	-
Issue costs	-	(73,075)	-	-	-
Shares issued after 30 June 2006 (note 17)	-	-	82,000	-	-
Exchange differences on retranslation of foreign operations	-	-	-	10,893	-
Net loss for the period	-	-	-	-	(491,818)
Balance at 30 June 2006	200,000	1,276,925	82,000	10,893	(491,818)
Company					
Issue of shares	200,000	1,350,000	-	-	-
Issue costs	-	(73,075)	-	-	-
Shares issued after 30 June 2006 (note 17)	-	-	82,000	-	-
Net loss for the period	-	-	-	-	(274,703)
Balance at 30 June 2006	200,000	1,276,925	82,000	-	(274,703)

15. Net cash outflow from operating activities

	Group 2006 £	**Company 2006 £**
Operating loss	(512,267)	(295,152)
Increase in trade and other receivables	(43,241)	(161,761)
Increase in trade and other payables	43,435	31,580
Depreciation of property, plant and equipment	2,529	-
Exchange differences on retranslation of foreign operations	10,893	-
Net cash outflow from operating activities	(498,651)	(425,333)

16. Control

No one party is identified as controlling the Company.

17. Subsequent events

On 10 July 2006, the Company completed a private placement capital raising £571,000 from the issue of 38,066,667 ordinary shares at a price of 1.5p per share of which £82,000 was received before 30 June 2006 and included in reserve for own shares. On 30 October 2006, the Company completed a capital raising to raise £900,000 from the issue of 90,000,000 ordinary shares at a price of 1p per share.

18. Related party transactions

During the period, a payment of £12,500 was made to Australian Heritage Group Pty Ltd, a company in which the former director Anthony Barton is a director and in which he holds a beneficial interest, in consideration for management and consultancy services provided to the Company in connection with a placing of Ordinary Shares and the admission of the issued share capital of the Company to trading on AIM.

During the period, the Company acquired the entire issued share capital of Tarapaca from Mineral securities Limited ("Minsec"). Tarapaca is the holding company of the group set out in note 12 to the accounts. The consideration paid and payable by the Company comprised initial consideration shares of 100,000,000 ordinary shares and deferred consideration shares of 50,000,000 ordinary shares. The conditions for the allotment of the deferred consideration shares are set out in the substantial shareholders' paragraph in the Directors report. Michael Bohm is a senior executive and a shareholder of Minsec. In addition, John Moore and the former director of the Company Keith Liddell are also directors and shareholders of Minsec.

John Bottomley, the secretary of the Company is an employee of Sprecher Grier Halberstam LLP, a firm of solicitors. This partnership was paid a sum of £12,796 in respect of legal and secretarial services to the Company.

These related party transactions are based on independent third party commercial rates. The Directors who have interests in these transactions do not participate in the decision making process relating to these transactions.

19. Decommissioning expenditure

The Directors have considered the environmental issues and the need for any necessary provision for the cost of rectifying any environmental damage, as might be required under local legislation. In their view, no provision is necessary for any future costs of decommissioning or any environmental damage.