Cambridge Mineral Resources plc
Annual Report & Accounts

Annual Report & Accounts 2005

Cambridge
Mineral Resources plc

Highlights - 2005 and to date

New countries

New mines - now in production

2.5m/ozs (approx.) in resources

Innovative exploration, development and production techniques

Contents

Our mission

Our mission is to be a significant producer of precious metals

Our focus

Acquisition of Gold production assets

Cost-effective development of operations

Establishing CMR stock as an essential component of a balanced portfolio of long term planned assets

Chairman's Statement

This has been an important and successful year for us and I am pleased to report to shareholders on the company's activities and achievements for 2005 and to date.

During 2005 the company fulfilled its ambition to significantly increase its mineral asset portfolio in two centres: South America and Europe. As a result CMR now holds a number of projects with precious and base-metal resources in Colombia, Peru, Spain and the Balkans, together with high quality exploration targets in each of those regions.

One of the main aims expressed in the company's new strategic growth plan is to evolve from being a junior exploration company to becoming a significant gold producer. We have now commenced that process and our goal is to generate a viable long-term business with profitable cashflows in order to deliver real shareholder returns.

Peru
As planned, CMR achieved initial producer status towards the end of 2005. This was accomplished following CMR's acquisition of a 50% joint venture interest in the Patacancha claim group which contains multiple high-grade gold veins outcropping above a large alteration zone indicating potential for copper-gold porpyhry mineralization.

The first of these veins, Marcelita-2, is now producing in small quantities of ore from development headings with average gold grades of 15 g/t. Ore production to date has been below target, in part due to unusually high rainfall in the region over three months in the winter. CMR has recently negotiated an option to purchase our partner's interest in the project. This has passed full operational and management control to us as a result of which CMR has now replaced the mine manager and mining contractor and has budgeted a further $75,000 to undertake sublevel development off the raise to develop the mineral reserve. CMR also plans to increase overall output through the development of multiple production headings on a number of nearby gold veins.

Colombia
CMR has expanded its efforts in the Andes of South America and in particular in the gold potential of Colombia. Colombia has produced more gold than any other country in South America, yet it remains virtually unexplored thus offering considerable opportunities for exploitation. The largest gold belt in Colombia is the Frontino Gold District in Antioquia Department which is the focus of our efforts.

CMR's strategy is to build a portfolio of small high-grade gold mines and to develop and expand them using modern methodologies and equipment in order to significantly increase production. Our plan is to establish a central processing plant, and cumulatively add 4 to 5 such operations to produce 1,000 to 2,000 tonnes of ore per day generating over 100,000 ounces of gold per annum.

To date CMR has acquired options on three small high-grade gold mining operations in the region with reported gold grades averaging from 10 g/t to 20 g/t with each offering excellent development potential.

At these mines limited production is ongoing whilst sampling, trenching, mapping and other work is undertaken prior to expansion. To save unnecessary expense and time, reserve definition will be progressively achieved from direct underground development rather than extensive surface drilling. Site infrastructure, such as power, compressors and access, is being installed as required. CMR is continually evaluating further mining opportunities in the area and a number of further agreements over similar operations are in advanced states of discussion.

CMR has also acquired the Three Hills project in the southern part of the country, located within the belt of Andean volcanic rocks that extends from Panama in the north to Chile in the south and which contain many world-class porphyry copper-gold deposits. Three Hills represents an extremely attractive 'blue sky' project within the company's mineral portfolio. BHP Billiton has recently staked surrounding claims.

Spain
In July 2005, following the completion of a pre-feasibility study, the company announced that the Lomero-Poyatos deposit in southern Spain was not large enough to justify the capital expenditure needed to develop a mine at this time. This resource contains approximately four million tonnes of massive sulphide mineralization, containing copper, zinc, gold and silver, and is a valuable defined resource within our mineral portfolio, but additional tonnage is needed to enhance the economics of a potential operation.

"Our goal is to deliver real shareholder returns"

Strategy
To develop a balanced portfolio of gold and base-metal production assets together with exploration "Blue Sky" potential.

Accordingly in 2006 CMR acquired the Masa Valverde massive sulphide deposit, to the south of Lomero-Poyatos, which has an approximate resource of 100 million tonnes of both massive sulphide and stockwork mineralization, containing copper and zinc with gold and silver by-product values. This enlarged resource has attracted the attention of international mining groups and CMR continues to discuss with interested parties the prospect of a joint venture to develop these assets.

Balkans
In 2005 CMR acquired interests in several projects in Bulgaria and Serbia. Most of these are under joint venture with Ivanhoe Mines Limited and its subsidiary Asia Gold Corporation who are fully funding these projects during their earn-in periods.

In Bulgaria, Tashlaka Hill contains an indicated resource of over 400,000 ounces gold, and the Chaira deposit contains an inferred resource of over 450,000 ounces gold. Diamond drilling at Tashlaka Hill South resulted in an exciting gold-silver discovery indicating a significant zone of epithermal mineralization. Further drilling is currently underway and results are expected soon. At Polski Gradets additional trenching and drilling is being planned.

In Serbia, exploration activities have returned assays of up to 19.6 g/t gold as well as identifying a copper porphyry target for drilling. Mapping and trenching has indicated the presence of a further copper porphyry system, at which trenching and airborne geophysics are planned for 2006.

Financial
The Operating Loss for 2005 was £1,617,378 (2004: £1,642,687). Administrative expenses increased in the first half of the year as a result of staff termination payments, project acquisition costs and expanded operations, including project-related costs that, as yet, have not been capitalised. The basic loss per share was 2.49p (2004: 1.11p). The Operating Loss per Share was 1.13p (2004: 1.11p).

In December 2005 CMR disposed of its investment in Falklands Gold and Minerals in order to better deploy those funds in development of our operations in Colombia. In 2004 CMR revalued this investment up to the then market value. In this year's accounts that revaluation has been released to the Profit and Loss Account. The cumulative net effect was a gain of £219,625 over the cost attributed to the investment, as explained in last year's annual report and note 9 to the financial statements.

In June 2006 CMR raised £1,062,750 before expenses of £21,000 through a share placing with institutions. The primary purpose of this funding was to advance our operations in Colombia. The placing was done at a very difficult time due to adverse international developments in the equity markets. The Board considered postponing the placing but decided that it was preferable to continue CMR's progress towards gold production rather than delay that advance with the attendant risk of continuing uncertainty in the markets.

Human resources
The vastly expanded operations of the company have naturally required increased human resources. CMR now has over 50 personnel, and is fortunate to have a core of 25 experienced industry professionals including miners, engineers, geoscientists and technicians. The Board has been progressively reduced from 8 to 4 people, all of whom are industry professionals and have full time commitment to the company. This process has achieved cost savings whilst streamlining management roles and efficiency.

In conclusion
For the first time in its history CMR now has a clear business strategy and its resource base and portfolio of projects is very much stronger than it was 12 months ago. European projects will continue to move forward through joint ventures, while our strategy to achieve gold production is being implemented in South America. I also wish to pay tribute to our staff in the different countries in which we operate. Without their diligent efforts, we would not have made the progress we have over the past year.

Colin Andrew
Acting Chairman
27 June 2006

Review of Operations

Introduction
During 2005 Cambridge Mineral Resources has moved forward rapidly to develop a greatly expanded and balanced portfolio of production and exploration assets across two centres of activity: South America and Europe.

South America
CMR began production at its 50% owned gold mine in Peru and acquired two gold mines in Colombia, where it has also acquired a large exploration prospect in the prolific Andean copper-gold porphyry belt.

Europe
CMR has acquired gold and copper-gold exploration interests in Bulgaria and Serbia, and added a multi-million tonne copper-zinc project in Spain to complement its existing base metal and gold resource at Lomero-Poyatos.

Human Resources
CMR now has in excess of 50 people globally including miners, technical and support staff.

Operational Centres

South America

High Grade Gold Mines

Colombia

Developing 3 gold mines

- El Cinco
- Quintana
- Santa Rita

Excellent copper-gold porphyry exploration

- Three Hills

Peru

Developing gold mine

- Marcelita - 2

Europe

Gold and Base Metals Exploration

Spain

Major polymetallic mineral reserves at Masa Valverde and Lomero-Poyatos.

Bulgaria

4 gold properties under joint venture.

Serbia

3 copper-gold properties under joint venture.

Review of Operations
Operational Centres South America

Colombia

Colombia
With total recorded gold production of 125 million ounces, Colombia is South America's largest gold producer. Despite a lack of investment over the past 30 years and little in the way of exploration, Colombia nevertheless produced 1.49 million ounces of gold in 2003. This came largely from a few significant producers and numerous artisanal mines, some of which can produce up to 200 tonnes per day, but more typically are five to ten tonnes per day operations. The principal hard rock gold producers in Colombia lie in the Frontino Gold Belt, located to the north-east of Medellin in Antioquia Department, within and adjacent to the Jurassic-aged Segovia quartz-monzonite and granodiorite batholith.

At Frontino Gold Mines in Segovia, classic mesothermal gold-bearing veins have been mined since the 1850's. They dip to a depth of more than 800 metres and have produced in excess of five million ounces of gold. These mines are currently producing around 600 tonnes per day at 10-12 g/t gold from two principal mines, El Silencio and Providencia.

Believing that several small mines in the Frontino Gold Belt have similar potential to the major Frontino Gold Mines veins, CMR has examined veins currently exploited by small artisanal mines and has so far completed option agreements on three deposits: El Cinco, Quintana and Santa Rita.

Within the Frontino Gold Belt CMR's strategy is to acquire a number of small high grade gold mines, and to redevelop and update them, and generate start-up production rates of 50-100 tonnes per day. Further exploration and development would be aimed at increasing production up to 400 to 500 tonnes per day at each operation. Four or five of these operations could achieve a combined production rate of 1,000 to 2,000 tonnes per day, for a total of over 100,000 ounces of gold per annum.

These mesothermal vein systems will be explored using underground development rather than by surface drilling as this will enable immediate development and production from the reserves thus defined and accessed.

El Cinco
El Cinco comprises two small mining operations located 20 kilometres north of Frontino Gold Mines. These two veins, averaging three metres thick, have previously been exploited at shallow levels, with average reported grades of 18 g/t gold.

The option agreement CMR has with the owners of El Cinco gives CMR a 90% interest in the project, including land title and access, in return for staged payments totalling US$160,000 over a 30-month period.

CMR has also lodged three mining concession applications over 5,500 hectares adjacent and contiguous to El Cinco. Many mineralized veins are known to exist within this area and exploration activities began in spring 2006.

An initial sampling of veins on the El Cinco project, from both underground and surface exposures, has produced results of over a full vein width of 6 metres at 8.1 g/t to 0.7 metres at 98.1 g/t additional partial vein width samples have returned assays up to 0.8 metres at 94.6 g/t.

Given the excellent grades reported, CMR has implemented a major surface trenching programme at El Cinco to explore the vein extensions, which has so far identified vein extensions of 600 metres along the Chingale vein. Other veins are subject to trenching at this time.

Quintana
The Quintana Mine lies 20 kilometres south of Frontino Gold Mines and comprises a small, well-run mining operation on a 1.5 to 2.0 metres thick, 30 to 40 degree dipping vein on some 200 hectares. This vein bears striking geological similarities to the Providencia Vein at Frontino Gold Mines and has reported similar average grades of around 10 to 15 g/t gold.

"High-grade Gold mines"

In November 2005 CMR completed an option agreement with the owners of Quintana which granted CMR the exclusive right to earn a 78% interest in the project, including land title and access, in return for staged payments totalling US$185,000, payable up to the decision for mine expansion.

Quintana is a small-scale, high-grade gold mine producing approximately five to ten tonnes per day. CMR's objective is to prove sufficient reserves to justify the installation of a modern process plant with a minimum capacity of 50 to 100 tonnes per day. Expansion of production would take place following further underground exploration.

To date, CMR has constructed an access road to the site, installed power, a compressor and drill equipment, and started underground development of 1,200 metres on two levels to determine reserve levels prior to making a mining decision.

Initial underground sampling by CMR geologists has returned the following results across the exposed width of the vein between: 1.3 and 1.6 metres assaying between 10 and 32 g/t.

Santa Rita
In May 2006 CMR concluded an option agreement with the owners of Santa Rita granting CMR the exclusive right to earn an 80% interest in the project, including land title and access, in return for staged payments totalling US$160,000, payable up to the decision on mine development.

Santa Rita is a small artisanal mining operation of around 70 staff, and located approximately 20 kilometres east of Frontino Gold Mines. Current production is around three tonnes per day, with an average 20 g/t gold from a steeply dipping one to two metre width vein. To date, the mine has reached a depth of 70 metres and exploited a total strike length of 120 metres. CMR geologists have identified a further 400 metres of strike length as extensions to the vein.

Underground sampling by CMR geologists has yielded an average grade of 28.3 g/t gold over an average vein width of 0.7 metres. There are indications that the wall rocks are mineralized and preliminary sampling has returned values up to 10.1 g/t gold over 0.6 metres in the hanging wall.

Three Hills
CMR has identified an outstanding exploration opportunity in Cauca Department in south-western Colombia. This project lies within the prolifically-mineralized Andean copper-gold porphyry belt, which runs from Panama through Colombia, Equador, Peru and Chile.

This belt, which is known to contain some of the largest copper deposits in the world, is as yet totally unexplored in the vicinity of the Three Hills prospect.

Under the terms of the option agreement, CMR is able to make staged payments in order to obtain a 95% interest in the project. In addition, CMR has acquired permits in the immediate area of Three Hills for an additional 26,800 hectares. BHP Billiton has recently staked the surrounding area.

Review of Operations
Operational Centres South America

Peru

Peru
CMR owns a 50 per cent. equity interest in the Patacancha project located in the gold-rich Ayacucho volcanic belt of southern Peru approximately 400 kilometres southeast of the capital Lima. The project is operated by Minera Sucre S.A., which CMR owns jointly with its operating partner, Minera Argento SRL. Minera Argento directed the production, development and exploration of our interests within the Patacancha claim group.

Currently, our principal project in the area is Marcelita-2, an underground high-grade gold mine located within the claim group, which covers approximately 15 square kilometres and is characterised by epithermal high-grade gold-bearing breccias and veins. The Marcelita-2 structure averages one metre in width with grades of 12-20 g/t gold. The mineralization outcrops on surface and extends to a known depth of 70 metres, remaining open ended below this level.

In addition trenching on other gold bearing epithermal veins and breccia bodies near Marcelita-2 is underway in order to identify future resources for production. Approximately a dozen mineralized veins outcrop in the vicinity of the Marcelita mine which represents the uppermost portions of a much larger alteration zone with potential for porphyry copper-gold mineralization at depth.

Initial mining activities at Marcelita-2 commenced in September 2005 with the development of a 70 metre ventilation raise through the structure. Ore resulting from this development phase was stockpiled for toll processing at a nearby facility using simple gravity and CIL-CIP mineral processing technologies. Following completion of the raise further activities were halted during the South American winter period due to unusually high rainfall in the high Andes.

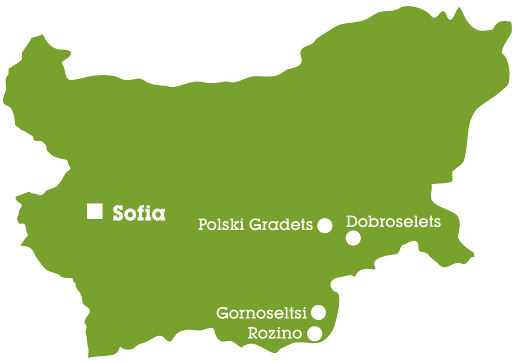
Sampling of the breccias within the raise resulted in assays reporting the following, very encouraging, gold values: 0.8 metres at 60.7 g/t, 0.6 metres at 39.1 g/t, 1.0 metres at 31.4 g/t, 0.3 metres at 23.6 g/t and 1.5 metres at 21.5 g/t. Overall mineralized ore production during raise development was below target.

In May 2006 CMR entered into an option to purchase the controlling interest in the project from Minera Argento at a price of US$215,000. The option runs for a period of 6 months, and gives CMR full operational control and a 99% financial interest in the project both during the option period and thereafter, should the option be exercised. The option period may also be extended for a further 6 months at CMR's request by increasing the option payment value by a further 5%. CMR may also purchase Argento's remaining 1% NSR royalty by the payment of $2 million within the next 5 years.

Following the signing of the option agreement CMR has reviewed progress to date. Resulting from this review, CMR has replaced the mine manager and mining contractor at site and has budgeted a further $75,000 to undertake sublevel development off the raise to develop the mineral reserve.

Review of Operations
Operational Centres Europe

Bulgaria



Bulgaria
In September 2005 CMR's exploration joint venture with Ivanhoe Mines was transferred to Ivanhoe's subsidiary Asia Gold Corp. This had no effect on the nature of the joint venture and exploration continued apace with good results at Tashlaka Hill on the Rosino Permit and at Vladimirovo on the Polski Gradets Permit.

Rozino and Gornoseltsi
During the year a new gold-silver discovery was made at Tashlaka Hill South. Initial results were very encouraging and indicate the presence of significant epithermal mineralization. A drilling programme tested the southern margin of the Tashlaka Hill project, where a zone of silicification extends for some 650 metres and is 20 to 50 metres broad at outcrop. CMR believes that this silicification has many geological similarities to the shallow silica "flood" formed in the near surface environment of precious metal-bearing epithermal systems. In these systems, precious metals are often developed some 75 to 150 metres below such silica and drilling was targeted at the shallower parts of the system.

Diamond drilling, for a total of 1,293.3 metres in six hole completions, intersected the silica target in all holes, but only in hole R-239a did the zone show textures indicative of the deeper parts of epithermal systems. The remaining holes appear to have intersected the zone at levels exhibiting geological characteristics considered to be indicative of shallow levels and above the precious metal zone.

Hole R-239a intersected 9.0 metres at 1.29 g/t gold, 40 g/t silver from 223.6 metres within chalcedonic and brecciated amethystine quartz, a style of mineralization not seen before at Tashlaka, and typical of epithermal vein systems around the world. Unusually for Tashlaka, the high silver to gold ratio suggests that the system cut in R-239a is still above the gold-rich zone. Other holes hit broad low-grade gold-silver mineralization, including 11.0 metres at 0.46 g/t gold, 12 g/t silver from 127.2 metres, within an intersection of 73.8 metres at 0.24 g/t gold, 10 g/t silver in R-240

Further drilling is currently underway to target the silicified vein-breccia zone at greater depths below surface and deeper within the epithermal system where better gold grades are anticipated.

Polski Gradets and Dobroselets
At Vladimirovo on the Polski Gradets Permit, geologists discovered mineralization in 2003. The gold mineralization has returned float samples containing up to 300 g/t gold but generally averages 1-5 g/t gold. The gold mineralization also contains anomalous levels of arsenic, silver and antimony and CMR geologists believe it is similar to Carlin-type gold deposits.

The mineralized horizon has now been trenched along some 2,000 metres of strike.

Trenching and drilling results in 2004 were as follows:

Intercepts and gold grades

Trench		
PGTR - 101	27.0m @ 0.60 g/t	Incl. 3.0m @ 2.87 g/t
PGTR - 102	15.0m @ 1.35 g/t	
PGTR - 103	21.0m @ 0.71 g/t	Incl. 9.0m @ 1.25 g/t
PGTR - 108	15.0m @ 1.61 g/t	Incl. 5.0m @ 4.57 g/t
PGTR - 110	18.6m @ 2.20 g/t	
	3.0m @ 1.26 g/t	Incl.10.0m @ 3.51 g/t
Drillhole		
PG - 001	10.9m @ 0.31 g/t	Incl. 3.4m @ 1.33 g/t
PG - 002	26.0m @ 1.25 g/t	
	28.0m @ 1.07 g/t	Incl. 9.0m @ 3.21 g/t
PG - 003	14.0m @ 0.86 g/t	Incl. 4.0m @ 2.06 g/t
PG - 005	9.0m @ 0.54 g/t	
PG - 006	7.0m @ 0.57 g/t	
	2.0m @ 1.55 g/t	
	4.0m @ 0.77 g/t	
	1.0m @ 1.20 g/t	
	2.0m @ 1.00 g/t	
PG - 007	11.0m @ 3.00 g/t	

Review of Operations
Operational Centres Europe

Serbia

Spain

Serbia
In Serbia, CMR holds an interest in three Exploration Permits located in the Lece volcanic complex, where epithermal gold-silver is being sought, and in the prolifically mineralized Timok magmatic complex, which hosts the world-class Bor copper-gold mines.

Exploration activities conducted with Ivanhoe Mines returned good early stage exploration results and have led to the identification of drill targets for the current year.

Ivan Kula and Tulare
On the Ivan Kula and Tulare Permits in the Lece volcanic complex, a number of epithermal vein and vein-breccia gold targets have been initially explored with assays up to 19.6 g/t gold returned and a copper porphyry target has been identified for drilling.

On the Gradishte Permit, mapping and trenching have defined a large alteration zone indicative of the presence of a copper porphyry mineralizing system. Trench GRT-09 returned 50.5 metres at 0.21% copper and 0.18 g/t gold, with individual metric assays of 0.6% copper. Additional trenching and airborne geophysics will be used for further evaluation of the site in early summer 2006.

Spain
In July 2005 CMR announced the results of the pre-feasibility study on the Lomero-Poyatos project in Spain, which was undertaken by Wardell Armstrong International. This study concluded that the project, while economically and technically feasible, would not generate a sufficiently attractive rate of return to justify its development because of the restricted size of the orebody.

In November 2005 CMR acquired the exploration permits, P.I. Valverde and P.I. Masa Valverde-2, covering an area of 38.71 square kilometres over the Masa Valverde deposit, approximately 25 kilometres south of Lomero-Poyatos. This deposit has established massive sulphide and cupriferous stockwork mineralization and CMR has estimated the orebodies to have inferred resources of around 100 million tonnes and 50 million tonnes respectively.

The potential at Masa Valverde is confirmed by the fact that 11 diamond drill holes, drilled by a previous operator, at a spacing of approximately 100 metres, have intersected up to 180 metres of massive sulphide and up to 111 metres of stockwork mineralization. Intersections include 45 metres grading 0.52% copper, 4.26% zinc and 1.41 g/t gold (massive sulphide); 31 metres grading 1.71% copper and 1.35% zinc (stockwork). This drilling confirmed that the average thickness of the massive sulphide intersections is ~ 70 metres and the average for stockwork mineralization is ~ 90 metres. There is great potential for a high-grade zinc/lead deposit to be defined within the massive sulphides. Potential also exists for the upgrading and extension of the copper stockwork mineralization.

"Masa Valverde significantly increases CMR's asset base"

The addition of the Masa Valverde deposit significantly increases CMR's overall asset base at a time when base-metal and precious metal prices are at historically high levels.

A preliminary resource model developed by CMR technical staff has calculated the inferred resource (massive sulphide and stockwork) as shown in the table below.

The zinc and copper mineralizations are generally separated from each other; zinc is found largely within massive sulphides and copper within the stockwork zone. As such, these resources can be considered separately. Additional potential is indicated by the westernmost hole (A-23), having an intersection of 98 metres of massive sulphides. The deposit remains open in this direction and is untested.

Falkland Islands
During December 2005 CMR sold its investment of 5.75 million shares in Falkland Gold and Minerals Ltd to RAB Special Situations (Master) Fund Ltd, generating proceeds of £573,850 after expenses.

CMR is using the proceeds of the sale to accelerate its programme of investment for gold production in Colombia, in line with its new strategy. By liquidating this non-core investment and redirecting the funds received into the gold production programme in Colombia, CMR is concentrating its resources where they are best employed to generate a return for shareholders.

Reserves & Resources

Project	Country	Status	Resource	Contained Gold
Tashlaka Hill	Bulgaria JORC	Indicated Resource (0.6 g/t Au cutoff)	15.8Mt @ 0.85 g/t Au	431,140 ozs
Chaira	Bulgaria CIS System	Inferred Resource (0.6 g/t Au cutoff)	6.74Mt @ 2.11 g/t Au	456,550 ozs
Lomero-Poyatos	Spain JORC	Indicated Resource 27.8 g/t Ag, 0.87% Cu, 1.57% Zn, 1.16% Pb (1.5 g/t Au cutoff)	3.71Mt @ 3.26 g/t Au,	388,270 ozs
Masa Valverde	Spain JORC	Inferred Resource 1.28% Pb, 4.30% Zn, 41.9 g/t Ag, 0.86 g/t Au (3% Zn cutoff) and	11.95 Mt @ 0.57% Cu	329,900 ozs*
		79.95 Mt @ 0.76% Cu 0.38% Zn, 1.28% Pb, 22.4 g/t Ag, 0.43 g/t Au (0.5% Cu cutoff)		1,103,650 ozs*

* The contained gold ounces in the Masa Valverde deposit are potentially recoverable as a by-product of the recovery of the other contained metals.

Information in the above table is based on data reviewed by Mr Colin J Andrew, BSc ARSM MIMMM FGS CEng, Managing Director for Cambridge Mineral Resources plc, who is a Chartered Engineer and Member of the Institute of Materials, Minerals & Mining, and qualifies as a Competent Person in accordance with the "Guidance Note for Mining, Oil and Gas Companies,March 2006" of the London Stock Exchange. Mr Andrew has in excess of 30 years experience in mining and mineral exploration and has consented to the inclusion of the information in the form and context in which it appears.

Report of the Directors

The directors present their report together with financial statements for the year ended 31 December 2005.

Principal activities
The Group and Company are principally engaged in directing investment into exploration and exploitation of natural resources.

Business review
A review of the Group's operations during the year ended 31 December 2005 is contained in the Chairman's Statement and Review of Operations.

There was a loss for the year amounting to £3,560,280 (2004: £1,512,155). As disclosed in note 9 to the financial statements there was a book loss in the year relating to the sale of the investment in Falkland Gold and Minerals Limited. Ignoring this book loss for comparability purposes there was a loss for the year of £1,546,629 (2004: £1,512,155). The directors do not recommend the payment of a dividend.

Directors
The directors in office at the end of the year and their interests in the shares of the Company as at 31 December 2005 and 1 January 2005 were as shown in the table opposite.

Annual General Meeting
The Annual General Meeting will be held at 10.00am on Wednesday 2 August 2006 at 10 Fenchurch Avenue, London, EC3M 5BN. A separate document containing a letter from the Acting Chairman, the formal notice of meeting and an explanation of the business to be transacted is being sent to shareholders with this document.

Directors' responsibilities for the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Financial instruments
The use of financial instruments by the Company and its subsidiary undertakings are disclosed in note 21 to the financial statements, together with an indication of both the risks that the Company and its subsidiaries are exposed to, and the risk management objectives that are in place.

Post balance sheet events
Post balance sheet events are disclosed in note 27 to the financial statements.

Payment policy and practice
It is the Company's policy to pay suppliers on the terms agreed with them. There were no trade creditors at the year-end.

Conversion to IFRS
The Company is preparing to comply with the European regulation requiring companies listed in the EU to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) from 2007 onwards and is working closely with its professional advisers.

Auditors
Grant Thornton UK LLP offers itself for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

By order of the Board.

Secretary
Capita IRG Trustees Limited
27 June 2006

Directors and their Interests

	Ordinary Shares		**Share Options**	
	31 December 2005	1 January 2005	**31 December 2005**	1 January 2005
Mr C J Andrew	**2,625,000**	2,625,000	**450,000**	450,000
Dr P B Bolt	**50,000**	50,000	**500,000**	500,000
Mr M J Burton	**67,308**	67,308	**500,000**	500,000
Mr M B Thomsen (resigned 16/06/06)	**50,000**	50,000	**500,000**	500,000
Mrs N Mateeva (appointed 28/07/05)	**-**	-	**-**	-

Mr M Thomsen, Executive Chairman, resigned from the Company on the 16 June 2006 in order to take up other interests in the Energy and Mineral sectors.

Mr C Andrew, Managing Director, has become Acting Chairman in the interim, until a non-executive Chairman is appointed.

Dr G L Massingill and Mr J B O'Farrell resigned on 11 April 2005 following the acquisitions of the mineral interests in Bulgaria and Serbia from Hereward Ventures plc.

Mr D R Bramhill resigned on 21 April 2005 to pursue his interests in the Oil and Gas sector.

Dr J M Fidalgo resigned on 28 July 2005.

Since the year end Mr M J Burton and Mr C J Andrew have each acquired 500,000 ordinary shares of the Company.

Corporate Governance Statement

Introduction
The Board supports high standards of corporate governance. The Company has followed the principles of corporate governance set out in the QCA (Quoted Companies Alliance) guidelines for an AIM company, as far as is practicable commensurate with the size, stage of development and financial status of the Group, and compliance is under continuous review. The Group's system of corporate governance is summarised below.

Board of Directors
The Board currently comprises three executive directors and one non-executive director. A further non-executive director is being recruited at this time. The Board meets a minimum of four times a year, but more usually monthly, at which it discusses issues concerning the strategy and future direction of the Group. All of the directors bring judgement to bear on issues affecting the Group and all have full and timely access to information necessary to enable them to discharge their duties. directors are subject to re-election at the Annual General Meeting following their date of appointment and every three years thereafter.

Remuneration Committee
The members of the Remuneration Committee currently comprise one non-executive director and one executive director. The Committee determines the terms and conditions, including the annual remuneration, of the executive directors and reviews these matters for other key executives, including their participation in any long term incentive schemes.

Nominations Committee
Given the current size of the Group it is not considered necessary to appoint a Nominations Committee. The Board reserves to itself the process by which new directors are appointed.

Audit Committee
The members of the Audit Committee currently comprise one non-executive director and one executive director. The Committee has been set up to deal with the appointment, terms of engagement and fees of the external auditors; to consider the scope of the audit; to review financial statements and reports, including any changes to accounting policies or practices; to keep under review the Group's system of risk management and internal controls and to ensure compliance with applicable laws and regulations.

Investor Relations
The Group maintains regular contact with shareholders though publications including the annual and interim reports, press releases and the Group's website. The directors are responsive to shareholder enquiries, whose views of are communicated to the entire Board.

Financial Statements

Report of the Independent Auditor

To the members of Cambridge Mineral Resources plc

We have audited the group and parent company financial statements the ("financial statements") of Cambridge Mineral Resources plc for the year ended 31 December 2005 which comprise the principal accounting policies, the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statements and notes 1 to 27. 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 auditors' 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 United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 whether the financial statements have been 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 only the chairman's statement, the review of operations, the report of the directors and the corporate governance statement. 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 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 to be audited 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.

Opinion
In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton
Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Southampton
27 June 2006

Principal Accounting Policies

Basis of preparation
The financial statements have been prepared under the historical cost convention, as modified by the inclusion of quoted investments at their market value, and in accordance with UK Generally Accepted Accounting Practice including the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" (the SORP).

The principal accounting policies have remained unchanged from the previous year. The policies have been reviewed by the directors in the light of FRS 18 and are considered to remain the most appropriate to the Group's circumstances, and are set out below.

Basis of consolidation
The Group financial statements consolidate those of the Company and of its subsidiary undertakings and incorporate joint ventures under the gross equity method of accounting as drawn up for the year to 31 December 2005.

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful economic life of 20 years.

Depreciation
Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful economic lives. The rates generally applicable are:

Office equipment	25%
Motor vehicles	25%

Exploration and development costs
In accordance with the full cost method as set out in the SORP, expenditure including related overheads on the acquisition, exploration and evaluation of interests in licences not yet transferred to a cost pool is capitalised under intangible assets. Cost pools are established on the basis of geographic area. When it is determined that such costs will be recouped through successful development and exploitation or alternatively by sale of the interest, expenditure will be transferred to tangible assets and depreciated over the expected productive life of the asset. Whenever a project is considered no longer viable the associated exploration expenditure is written off to the profit and loss account.

Investments
Investments in subsidiaries are included at cost. Quoted investments are included at mid-market value.

Foreign currencies
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. All other exchange differences are dealt with through the profit and loss account.

Deferred taxation
Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Financial instruments
Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

Interest receivable and payable is accrued and credited or charged to the profit and loss account in the period to which it relates.

Liquid resources
The Company classes those funds placed on short-term deposits as liquid resources. These deposits are used to maximise interest received.

Operating leases
Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Goverment grants
In Spain the Group has received grants from the Spanish authorities in respect of project development expenditure. The grants received have been accounted for as deferred income.

Consolidated Profit & Loss Account
For the year ended 31 December 2005

	Note	**2005** £	2004 £
Impairment and amounts written off intangible assets	3	**-**	(608,318)
Other administrative expenses		**(1,617,378)**	(1,034,369)
Total administrative expenses and operating loss		**(1,617,378)**	(1,642,687)
Share of profits of joint venture		**61**	-
Loss on disposal of fixed asset investment	9	**(2,013,651)**	-
Interest receivable and similar income		**70,688**	130,532
Loss on ordinary activities before taxation	1	**(3,560,280)**	(1,512,155)
Tax on loss on ordinary activities	4	**-**	-
Loss for the financial year	16	**(3,560,280)**	(1,512,155)
Basic loss per share	6	**(2.49p)**	(1.11p)

All operations are continuing.

Consolidated Statement of Total Recognised Gains & Losses
For the year ended 31 December 2005

	2005 £	2004 £
Loss for the financial year		
- group losses	**(3,560,341)**	(1,512,155)
- share of profits of joint venture	**61**	-
	(3,560,280)	(1,512,155)
Unrealised (loss)/gain on revaluation of fixed asset investments	**(26,400)**	2,236,925
Currency differences on foreign currency net investments	**(80,811)**	9,301
Total recognised gains and losses relating to the year	**(3,667,491)**	734,071

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Balance Sheet
As at 31 December 2005

	Note	2005 £	2004 £
Fixed assets			
Intangible assets	7		
- Goodwill		**1,115,242**	1,191,715
- Development expenditure		**3,173,455**	2,859,902
		4,288,697	4,051,617
Tangible assets	8	**43,844**	53,826
Investments	9		
- Share of gross assets of joint venture		**103,512**	-
- Share of gross liabilities of joint venture		**(103,451)**	-
		61	-
- Other fixed asset investments		**873,338**	2,664,300
		5,205,940	6,769,743
Current assets			
Debtors	10	**642,868**	375,196
Cash at bank and in hand		**1,287,292**	2,811,503
Creditors: amounts falling due within one year	11	**(287,778)**	(227,359)
Net current assets		**1,642,382**	2,959,340
Net assets		**6,848,322**	9,729,083
Capital and reserves			
Called up share capital	12	**1,451,322**	1,367,963
Share premium account	13	**9,165,330**	9,164,644
Merger reserve	14	**2,116,435**	1,413,750
Revaluation reserve	15	**18,900**	2,277,425
Profit and loss account	16	**(5,903,665)**	(4,494,699)
Shareholders' funds	17	**6,848,322**	9,729,083

The financial statements were approved by the Board of Directors on 27 June 2006.

Michael J Burton
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Balance Sheet
As at 31 December 2005

	Note	2005 £	2004 £
Fixed assets			
Intangible assets	7	**-**	333,526
Tangible assets	8	**19,909**	16,709
Investments	9	**1,497,079**	576,847
		1,516,988	927,082
Current assets			
Debtors	10	**3,661,489**	3,070,570
Cash at bank and in hand		**1,204,854**	2,755,195
		4,866,343	5,825,765
Creditors: amounts falling due within one year	11	**(495,846)**	(104,435)
Net current assets		**4,370,497**	5,721,330
Net assets		**5,887,485**	6,648,412
Capital and reserves			
Called up share capital	12	**1,451,322**	1,367,963
Share premium account	13	**9,165,330**	9,164,644
Merger reserve	14	**702,685**	-
Revaluation reserve	15	**18,900**	45,300
Profit and loss account	16	**(5,450,752)**	(3,929,495)
Shareholders' funds		**5,887,485**	6,648,412

The financial statements were approved by the Board of Directors on 27 June 2006.

Michael J Burton
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2005

	Note	2005 £	2004 £
Net cash outflow from operating activities	18	**(1,722,463)**	(1,110,392)
Returns on investments and servicing of finance			
Interest received		**70,688**	130,532
Capital expenditure and financial investment			
Purchase of intangible fixed assets	7	**(387,336)**	(813,503)
Purchase of tangible fixed assets	8	**(21,096)**	(14,612)
Sale of investments	9	**573,849**	-
Expenses paid for the purchase of subsidiary undertakings		**(40,541)**	-
Net cash inflow/(outflow) from capital expenditure and financial investment		**124,876**	(828,115)
Movement in liquid resources			
Funds removed from/(placed on) deposit	19	**1,480,751**	1,800,000
Financing			
Issue of shares	12	**4,333**	216,087
Expenses of share issues	13	**-**	-
Net cash inflow from financing		**4,333**	216,087
(Decrease)/increase in cash	19	**(41,815)**	208,112

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

1 Loss on ordinary activities before taxation
The loss on ordinary activities is stated after:

	2005	2004
	£	£
Auditors' remuneration		
- audit services	**15,000**	12,000
- non-audit services:		
- review of Interim Statement	**1,275**	500
- tax compliance	**3,360**	1,500
- tax advisory	**1,500**	5,500
Hire of motor vehicles		
- operating lease rentals	**3,952**	5,330
Depreciation of tangible fixed assets	**29,993**	37,172
Amortisation of goodwill	**76,474**	114,878

The loss on ordinary activities and net assets are attributable to the following geographical segments:

	Loss on ordinary activities		**Net assets**	
	2005	2004	**2005**	2004
	£	£	**£**	£
United Kingdom	**3,453,624**	796,815	**6,208,896**	8,983,474
Spain	**116,860**	107,022	**629,222**	745,609
Peru	**(10,204)**	-	**10,204**	-
Ireland and Scotland	**-**	608,318	**-**	-
	3,560,280	1,512,155	**6,848,322**	9,729,083

2 Directors and employees
Staff costs, excluding director's emoluments, during the year were as follows:

	2005	2004
	£	£
Wages and salaries	**117,768**	94,267
Employee redundancy	**14,300**	-
Social security costs	**19,977**	22,567
	152,045	116,834

The average number of employees of the Company during the year was 6 (2004: 6).

Remuneration in respect of director's was as follows:

	2005	2004
	£	£
Emoluments:		
- wages and salaries	**103,482**	95,437
- compensation for loss of office	**87,325**	-
- fees	**265,180**	299,339
	455,987	394,776

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2005	2004
	£	£
Emoluments	**70,500**	70,000

No director's participate in money purchase or final salary pension schemes. No director exercised any share options during the year.

Notes to the Financial Statements

3 Impairment and amounts written off intangible assets

	2005	2004
	£	£
Amounts written off intangible assets	-	17,304
Impairment provision against intangible assets	-	591,014
	-	608,318

4 Tax on loss on ordinary activities

	2005	2004
	£	£
Loss for the year multiplied by standard rate of UK corporation tax 30%	(1,068,084)	(453,647)
Effect of:		
UK expenses not deductible for tax purposes	604,320	75,557
UK depreciation for the period in excess of capital allowances	(254)	2,899
Increase in UK tax losses	454,963	366,027
Peruvian profits at 30%	(3,061)	-
Spanish losses at 30%	12,116	9,164
Tax charge	-	-
Unprovided deferred tax asset:		
UK taxation losses	1,578,907	1,126,196
Accelerated capital allowances	6,360	6,409
Capital gains on revalued investments	(5,670)	(683,228)
	1,579,597	449,377
Aggregate tax losses carried forward by jurisdiction		
United Kingdom	5,263,023	3,746,481
Spain	40,277	28,161
Peru	(3,061)	-
	5,300,239	3,774,642

The deferred tax asset has not been provided because there is insufficient certainty as to the availability of future profits against which the net taxation losses can be utilised.

5 Loss for the financial year

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company loss for the year was £1,521,257 (2004: £1,238,512).

6 Loss per share

The calculation of basic loss per share is based on the loss for the financial year £3,560,280 (2004: £1,512,155) divided by the weighted average number of shares in issue during the year 142,732,286 (2004: 136,081,145). There is no dilutive effect on the loss per share as a result of share options and warrants.

The basic loss per share in 2005 is distorted due to the book loss on the sale of the investment in Falkland Gold and Minerals Limited (FGML), which occurred as a result of the company valuing quoted investments at mid-market value. Had the investment in FGML been stated at historic cost then the basic loss per share would have been 1.08p (2004: 1.11p). This is based on a loss for the financial year of £1,546,629 (2004: £1,512,155) divided by the weighted average number of shares in issue during the year 142,732,286 (2004: 136,081,145).

Notes to the Financial Statements
continued

7 Intangible fixed assets

	Goodwill £	Development Expenditure £	Total £
The Group			
Cost			
At 1 January 2005	1,529,475	3,450,916	4,980,391
Foreign exchange difference	-	(73,783)	(73,783)
Additions	-	387,336	387,336
At 31 December 2005	1,529,475	3,764,469	5,293,944
Amortisation			
At 1 January 2005	337,760	591,014	928,774
Charge for the year	76,473	-	76,473
At 31 December 2005	414,233	591,014	1,005,247
Net book amount at 31 December 2005	**1,115,242**	**3,173,455**	**4,288,697**
Net book amount at 31 December 2004	1,191,715	2,859,902	4,051,617

	Development Expenditure £
The Company	
Cost	
At 1 January 2005	924,540
Transfer to subsidiary	(333,526)
At 31 December 2005	591,014
Amortisation	
At 1 January 2005	591,014
Impairment losses	-
At 31 December 2005	591,014
Net book amount at 31 December 2005	-
Net book amount at 31 December 2004	333,526

Notes to the Financial Statements
continued

8 Tangible fixed assets

	Office Equipment £	Motor Vehicles £	Total £
The Group			
Cost			
At 1 January 2005	198,216	57,038	255,254
Foreign exchange difference	(1,899)	(546)	(2,445)
Additions	21,096	-	21,096
At 31 December 2005	217,413	56,492	273,905
Depreciation			
At 1 January 2005	165,641	35,787	201,428
Foreign exchange difference	(1,120)	(242)	(1,362)
Charge for the year	24,968	5,027	29,995
At 31 December 2005	189,489	40,572	230,061
Net book amount at 31 December 2005	**27,924**	**15,920**	**43,844**
Net book amount at 31 December 2004	32,575	21,251	53,826

	Office Equipment £	Motor Vehicles £	Total £
The Company			
Cost			
At 1 January 2005	163,522	8,000	171,522
Additions	20,230	-	20,230
At 31 December 2005	183,752	8,000	191,752
Depreciation			
At 1 January 2005	146,814	7,999	154,813
Charge for the year	17,030	-	17,030
At 31 December 2005	163,844	7,999	171,843
Net book amount at 31 December 2005	**19,908**	**1**	**19,909**
Net book amount at 31 December 2004	16,708	1	16,709

Notes to the Financial Statements
continued

9 Fixed asset investments

	Shares in Group Undertakings £	Other Investments £	Total £
The Group			
Cost or valuation			
At 1 January 2005	-	2,664,300	2,664,300
Additions	822,938	-	822,938
Disposals	-	(2,587,500)	(2,587,500)
Revaluations	-	(26,400)	(26,400)
At 31 December 2005	**822,938**	**50,400**	**873,338**

	Shares in Group Undertakings £	Other Investments £	Total £
The Company			
Cost or valuation			
At 1 January 2005	500,047	76,800	576,847
Additions	946,632	-	946,632
Revaluations	-	(26,400)	(26,400)
At 31 December 2005	**1,446,679**	**50,400**	**1,497,079**

The Company additions are greater than the Group additions due to additional investment during the year in the subsidiary company Recursos Metalicos.

Other investments comprise:

a) A holding in Oil Quest Resources plc, a company in which Mr M B Thomsen was also a director, at a cost of £31,500. The market value of the investment in Oil Quest Resources plc at 31 December 2005 was £50,400 (2004: £76,800).

b) A holding in Falklands Gold & Minerals Limited which was sold in December 2005 for £575,000. The holding originally cost £355,375 but was revalued to its market value of £2,587,500 at 31 December 2004. Therefore there is a loss on disposal of £2,012,500 which has been offset in the profit and loss account by a transfer from the revaluation reserve.

At 31 December 2005 the Group held the following share capital of the subsidiary undertakings stated below:

Name of subsidiary undertaking	Country of incorporation	Nature of business	% of Shares	Included in the consolidation
Recursos Metalicos SL	Spain	Mineral exploration	100	Yes
Aqua Metallica Limited	England & Wales	Metal recoveries	100	Yes
South Atlantic Resources Limited	England & Wales	Mineral exploration	100	Yes
South Atlantic Resources (Falkland Islands) Limited	Falkland Islands	Mineral exploration	100	Yes
Hereward Ventures Bulgaria EAD	Bulgaria	Mineral exploration	100	No (see below)
Hereward Ventures d.o.o.	Serbia	Mineral exploration	100	No (see below)
Minera Peru Gold S.A.C.	Peru	Mineral exploration	100	Yes
Colgold Inc	Panama	Mineral exploration	100	Yes

The investment in South Atlantic Resources (Falkland Islands) Limited is held by South Atlantic Resources Limited.

Notes to the Financial Statements
continued

Subsidiaries excluded from consolidation
Although the Company owned the whole of the share capital of Hereward Ventures Bulgaria EAD and Hereward Ventures d.o.o. at the year end, there are options in place which give a joint venture partner the right to subscribe for the share capital in those undertakings, which would reduce the Company's interest to 20%. These options could be exercised and represent a restriction on the Company's rights to control the undertakings, which have therefore been excluded from consolidation and accounted for as a trade investment.

Joint Venture
The Company holds an investment in its joint venture company Minera Sucre SA (Minera Sucre). The Company holds 50% of the issued share capital of Minera Sucre and holds the right to appoint the auditors of Minera Sucre. Minera Sucre carries on the business of mineral exploration.

10 Debtors

	Group 2005 £	Group 2004 £	**Company 2005 £**	Company 2004 £
Amounts owed by group undertakings	**-**	-	**3,471,244**	2,965,515
Amounts owed by joint ventures	**146,666**	-	-	-
Other debtors	**482,703**	373,988	**176,746**	103,847
Prepayments and accrued income	**13,499**	1,208	**13,499**	1,208
	642,868	375,196	**3,661,489**	3,070,570

11 Creditors: amounts falling due within one year

	Group 2005 £	Group 2004 £	**Company 2005 £**	Company 2004 £
Amounts owed to group undertakings	**-**	-	**387,026**	-
Social security and other taxes	**13,370**	9,986	**8,882**	1,228
Other creditors	**88,353**	64,377	**68,379**	45,648
Accruals and deferred income	**186,055**	152,996	**31,559**	57,559
	287,778	227,359	**495,846**	104,435

Group deferred income includes £154,496 (2004: £95,437) in respect of Spanish grants received for project development expenditure.

Notes to the Financial Statements
continued

12 Share capital

	2005 **£**	2004 £
Authorised		
500,000,000 ordinary shares of 1p each	**5,000,000**	5,000,000
Allotted, called up and fully paid		
145,132,372 (2004: 136,796,408) ordinary shares of 1p each	**1,451,322**	1,367,963

Allotments during the year
During the year the Company alloted a total of 8,335,964 ordinary 1p shares. The cash consideration received for 364,661 shares was £4,333 of which £686 has been credited to the share premium account.

The Company allotted 7,971,303 ordinary shares at a price of 9.75p to Oil Quest Resources plc (OQ) in exchange for the entire issued share capital of the OQ subsidiaries; Hereward Ventures Bulgaria EAD & Hereward Ventures d.o.o. The nominal value of this non-cash consideration was £79,712. The excess of the consideration over the nominal value of the shares of £697,489 has been credited to the merger reserve.

Contingent rights to the allotment of shares

(a) Share options

The Company has granted options to subscribe for ordinary 1p shares as follows:

Date granted	**Period exercisable**	**Exercise price per share (pence)**	**Number of options unexercised**
13 November 1996	13 November 1996 to 12 November 2006	4.00p	167,345
8 January 1997	8 January 1997 to 7 January 2007	8.00p	124,000
18 April 2000	18 April 2000 to 17 April 2007	16.00p	1,700,000
31 December 2001	31 December 2001 to 30 December 2008	20.00p	400,000
19 February 2003	19 February 2003 to 18 February 2010	10.25p	1,400,000
19 February 2003	19 February 2003 to 18 February 2010	14.50p	600,000
			4,391,345

The Company's share price at 31 December 2005 was 6p. The highest and lowest share prices during the year were 10.25p and 2.875p respectively.

(b) Share warrants

At 31 December 2005 the Company had no warrants in issue.

Notes to the Financial Statements
continued

13 Share premium account

	£
At 1 January 2005	9,164,644
Premium on allotments during the year	686
At 31 December 2005	**9,165,330**

14 Merger reserve

	Group £	Company £
At 1 January 2005	1,413,750	-
Arising on acquisitions in the year	702,685	702,685
At 31 December 2005	**2,116,435**	**702,685**

15 Revaluation reserve

	Group £	Company £
At 1 January 2005	2,277,425	45,300
Transfer to profit and loss account	(2,232,125)	-
Revaluation of investments	(26,400)	(26,400)
At 31 December 2005	**18,900**	**18,900**

16 Profit and loss account

	Group £	Company £
At 1 January 2005	(4,494,699)	(3,929,495)
Foreign exchange differences	(80,811)	-
Transfer from revaluation reserve	2,232,125	-
Retained loss for the year	(3,560,280)	(1,521,257)
At 31 December 2005	**(5,903,665)**	**(5,450,752)**

17 Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Loss for the financial year	**(3,560,280)**	(1,512,155)
Other recognised gains and losses	**(80,811)**	9,301
(Decrease)/increase in revaluation reserve	**(26,400)**	2,236,925
Increase in merger reserve	**702,685**	-
Issue of shares (net of expenses)	**84,045**	216,087
Net (decrease)/increase in shareholders' funds	**(2,880,761)**	950,158
Shareholders' funds at 1 January 2005	**9,729,083**	8,778,925
Shareholders' funds at 31 December 2005	**6,848,322**	9,729,083

Notes to the Financial Statements
continued

18 Net cash outflow from operating activities

	2005	2004
	£	£
Operating loss	**(1,617,378)**	(1,642,687)
Depreciation	**29,995**	37,172
Amortisation of goodwill	**76,473**	114,878
Development expenditure written off	**-**	17,304
Increase in debtors	**(275,562)**	(155,035)
Increase/(decrease) in creditors	**64,009**	(73,038)
Net cash outflow from continuing operating activities	**(1,722,463)**	(1,110,392)

19 Reconciliation of net cash flow to movement in net funds

	2005	2004
	£	£
(Decrease)/increase in cash in the year	**(41,815)**	208,112
Foreign exchange differences	**(1,645)**	318
Decrease in liquid resources	**(1,480,751)**	(1,800,000)
	(1,524,211)	(1,591,570)
Net funds at 1 January 2005	**2,811,503**	4,403,073
Net funds at 31 December 2005	**1,287,292**	2,811,503

20 Analysis of changes in net funds

	At 1 January 2005	**Foreign exchange differences**	**Cash Flow**	**At 31 December 2005**
	£			**£**
Cash at bank and in hand	261,503	(1,645)	(41,815)	218,043
Liquid resources	2,550,000	-	(1,480,751)	1,069,249
	2,811,503	**(1,645)**	**(1,522,566)**	**1,287,292**

21 Financial instruments
The Group uses financial instruments, other than derivatives, comprising borrowings, cash, liquid resources and various items such as sundry debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are liquidity risk and currency risk. The directors review and agree policies for managing these risks and these are summarised below.

Short term debtors and creditors have been excluded from all of the following disclosures except currency risk.

Liquidity risk
The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Currency risk
The Group does not hedge its exposure of foreign investments held in foreign currencies. The Group is exposed to translation and transaction foreign exchange risk and takes profits or losses on these as they arise.

Borrowing facilities and interest rate risk
The Group finances its operations through the issue of equity share capital. There is no borrowing and therefore no exposure to interest rate fluctuations. The liquid resources disclosed in note 20 are on short term deposit at a fixed interest rate of 4.50%. These deposits are kept under regular review, with reference to future expenditure requirements, to maximise interest receivable.

Notes to the Financial Statements
continued

Fair values
The fair values of the Group's financial instruments are considered equal to their book values.

22 Capital commitments
Neither the Group nor the Company had any capital commitments at 31 December 2005 or 31 December 2004.

23 Contingent liabilities
There were no contingent liabilities at 31 December 2005 or 31 December 2004.

24 Contingent assets
Under the terms of the agreement for the acquisition of Hereward Ventures Bulgaria EAD (HVB), the Company acquired the right to receive the inter-company loans due from HVB to Hereward Ventures plc. These loans total approximately £2.2m but as it is uncertain as to when HVB will be in a position to repay the debt the loans have not been recognised as an asset in these financial statements. The funds will be recognised in the profit and loss account as and when they are received.

25 Operating lease commitments
Operating lease payments amounting to £nil (2004: £18,611) are due within one year. Operating lease payments amounting to £nil (2004: £7,250) are due between two and five years from the balance sheet date.

26 Related party transactions
The following related party transactions are in addition to the Directors' fees shown in note 2:

During the year the Company paid Geomin Consultants £60,254 (2004: £nil) for the consultancy and technical services of its employee C Andrew. C Andrew is also a director of the Company. There were no amounts owing to Geomin Consultants at 31 December 2005.

During the year the Company paid Michael Thomsen LLC, a company owned & controlled by M Thomsen who was also the Executive Chairman of the Company, £61,500 (2004: £nil) for the consultancy and technical services of M Thomsen. There were no amounts owing to Michael Thomsen LLC at 31 December 2005.

During the year the Company paid Euroventure International plc, a company owned & controlled by M Burton who is also a director of the Company, £52,500 (2004: £nil) for the accountancy services of Michael Burton. There were no amounts owing to Euroventure International plc at 31 December 2005.

During the year the Company paid Corby Limited, a company owned & controlled by D Bramhill, £83,500 (2004: £nil) for the consultancy services of D Bramhill. D Bramhill was a director of the Company until 21 April 2005. At 31 December 2005 Corby Limited owed the Company £14,613 (2004: £nil).

27 Post balance sheet events
(a) On 4 January 2006 the Company set up a Colombian subsidiary Colgold Inc Colombia, through which it will oversee its strategic move into Colombia.

(b) On 28 April 2006 the Company signed an option agreement with its partner in Peru, Minera Argento SAC (Argento), to acquire Argento's 50% interest in the joint venture company Minera Sucre SA, at a cost of US$215,000. The option will last for 6 months, and also provides for the immediate transfer of management control of the project from Argento to CMR's subsidiary in Peru, Minera Peru Gold SAC.

(c) On 16 June 2006 the Company raised £1,062,750 before expenses of £21,000, through a share placing with institutions.

Directors, Officers & Advisers

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