



Monterrico Metals plc
Copper in Peru

Monterrico Metals plc

Interim Report and Accounts 2007



Company Profile

Contents

- | | | | |
|----|--|----|--|
| 1 | Chairman's Statement | 11 | Condensed Statement of Cash Flows |
| 7 | Independent Review Report | 12 | Notes to the Condensed Interim Financial Information |
| 8 | Condensed Income Statement | 19 | Corporate Information |
| 9 | Condensed Balance Sheet | | |
| 10 | Condensed Statement of Changes in Shareholders' Equity | | |

Monterrico Metals plc ("Monterrico" or the "Company") is a London based resource development company which operates mainly in Peru. The Company's shares are quoted on AIM, ticker code – MNA.L.

Monterrico is developing the **Rio Blanco Copper Project** in northern Peru, one of the largest undeveloped copper deposits in the world today. Rio Blanco is wholly owned by Monterrico and is the Company's principal asset. On the basis of production levels defined in the Detailed Feasibility Study (DFS), when it comes into production, Rio Blanco will be amongst the 20 largest copper mines in the world. Monterrico also has several other precious/base metal prospects in Peru.

Monterrico is fully committed to Sustainable Development and to its responsibilities to the local communities and all stakeholders.

Board of Directors



Appointed 1 June 2007:

1. Richard Ralph – Chairman (Non-Executive); 2. Xiao Dong Huang – Chief Executive Officer; 3. Shan Shan (Susan) Li – Finance Director; 4. Guobin Hu – Technical Director. Other Non-Executive Directors: 5. Wenzhou Huang, 6. Raymond Angus and 7. Harry Cooper.

Chairman's Statement

Highlights

- Detailed Feasibility Study (DFS) results for Rio Blanco announced February 2007:
 - Results confirm 25 Mtpa open pit mining project is economically feasible
 - Resources: 1.257 Bt at 0.57% copper and 228 ppm molybdenum (JORC compliant)
 - Proven and Probable Reserves: 498 Mt at 0.63% copper and 216 ppm molybdenum
 - Capital cost of Project is US\$1.44 billion (inc indirect costs and contingencies)
 - Economic indicators for first five years of operation:

Operating costs	41 cents/lb copper (net of by-product credits)
Project payback period	4 years
Annual copper production	191,000 tonnes per year
Annual molybdenum production	2,180 tonnes per year
- Takeover offer from Zijin Consortium for Monterrico at 350p per share recommended by Board, February 2007
- Offer successfully concluded 27 April 2007; Zijin Consortium acquires 89.9% shareholding but undertakes to sell down to 70% and maintain AIM-listing
- New Monterrico Board appointed 1 June 2007
- Stability Agreements with Peruvian Government announced August 2007, recognising Monterrico's investment in Peru and fixing tax and labour conditions for 10-year term
- Trust Funds for US\$80 million (accumulated over the 20-year mine life) proposed for the communities in area of influence of the Rio Blanco mine, announced August 2007
- First stage of proposed sell down by Consortium completed September 2007. Consortium sold 10% of Monterrico (2.63 million shares) to major Korean smelter (LS-Nikko) at 370p per share. This is at a premium to the prevailing share price and the Consortium's offer price

Introduction

The first six months of 2007 saw two very important developments for Monterrico.

The first was the announcement in February of the results of the Detailed Feasibility Study (DFS) of the Rio Blanco Project, which had been completed on target at the end of 2006. The completion of the DFS marks an important milestone for the Company as it converts what was merely an exploration property just a few years ago into what is today a world class resource with a feasible development plan.

The second was the successful acquisition of a majority shareholding in Monterrico by the Chinese, Xiamen Zijin Tongguan Investment Development Company Ltd (the Zijin Consortium). This acquisition became effective on 27 April 2007, with the Consortium acquiring 89.9% of Monterrico.

The new management took control with effect from 1 June 2007. This is, therefore, Monterrico's first progress report since the change of management and I am very pleased to present it.

Chairman's Statement continued

The Zijin Consortium and the Benefits it Brings

The Zijin Consortium consists of a partnership of three important Chinese companies: 45% Zijin Mining Group Co., Ltd; 35% Tongling Nonferrous Metals Group Holdings Co., Ltd; and 20% Xiamen Construction and Development Co., Ltd. The takeover by the Zijin Consortium brings enormous benefits to Monterrico, in the form of technical expertise and financial strength, at a critical time when Monterrico begins the exciting transition from an exploration company to a major copper producer. As majority shareholder, the Consortium will provide Monterrico with its expertise in large scale mine development and operation, a market for the concentrate product, as well as the solid financial support needed for the development of Rio Blanco and its associated infrastructure.

Maintenance of the AIM-listing

At the time of the Offer, the Consortium announced its intention to maintain Monterrico's AIM-listing and to place down about 20% of the shares it acquired to establish a free float of not less than 30%. The first stage of this sell-down was reported on 4 September, when the Consortium announced that it had entered into a conditional agreement to sell 2,630,606 shares, representing 10% of Monterrico, to the Korean company, LS-Nikko Copper Inc. at a price of 370p per share. This was at a premium to both the Zijin offer price and the prevailing share price. (Subsequent to the publication of the interim results, the Company announced on 25 September that the sell-down to LS-Nikko had been finalised on 21 September as planned). LS-Nikko is the second largest copper smelting company in the world and this transaction represents a demonstration of confidence in both Monterrico and in the future development of Rio Blanco.

New Management

The first priority of the new management was the reconstruction of the Board and management teams in both London and Peru. This has now been achieved. As one of only two previous Directors to continue on the Board following the change of ownership, I would like to thank the outgoing Directors for the valuable contribution they made to the growth of the Company since its foundation, and to welcome the new Board, with members from Britain, China, Canada and Australia.

Under the leadership of myself as Non-Executive Chairman, and Mr Xiaodong Huang, a highly experienced professional mining company executive, as CEO, the Company has a strong and cohesive team combining the requisite mix of managerial, mining, engineering, financial and community relations skills to take the Rio Blanco Project forward into the next stage. The three Executive Directors of Monterrico Metals plc are also Executive Directors of our Peruvian subsidiary, Minera Majaz SA, which is responsible for developing the Rio Blanco Project. Overall, a firm grip is being taken of all aspects of the Company and the Project with a view to establishing strong, state-of-the-art management and financial control systems.



The new management is committed to bringing the Rio Blanco Project into production as soon as possible. At the AGM in July, I announced that the Company's next strategic priorities, which we have already embarked upon, are: reviewing and optimising the DFS; rebuilding relations with the communities living in the area of influence of the Rio Blanco Project; and completing the Environmental (and Social) Impact Assessment with a view to being in a position to submit it to the Peruvian Government as quickly as possible.

Rio Blanco Project – Detailed Feasibility Study (DFS)

The DFS was prepared for the Company by a team of independent mining consultancy companies under the leadership of Hatch Associates. The DFS considers an open pit operation treating 25 million tonnes of ore per annum over an initial 20 year mine life. The mine will be centred on Henry's Hill where resources of 1.257 billion tonnes at 0.57% copper and 228 ppm molybdenum have been confirmed to JORC standards. The mine will use conventional flotation methods to produce separate copper and molybdenum concentrates. According to the DFS, Rio Blanco will produce about 191,000 tonnes of copper and 2,180 tonnes of molybdenum per year on average during the first five years of operation. At this rate of copper production, Rio Blanco would rank amongst the 20 largest copper mines in the world today.

Due to its remote location, the Project will require significant infrastructure development. To minimise the initial capital cost of the Project, the DFS recommended trucking the concentrates from the mine to the port in the early years; however, a study for a concentrate pipeline was also developed to full feasibility as an option for the future.

Hatch has estimated the Capital Cost of the Project as US\$1.44 billion total cost (prepared to an accuracy of -5%/+15%, including indirect costs and contingencies) and average operating costs for the first five years of operation to be 41 cents/lb copper (net of by-product credits).

The review of the DFS is being undertaken with a view to optimising project design, while incorporating the most appropriate technology to ensure environmental, social and operating efficiency.

Social and Political

Achieving community acceptance for the project is a top priority for the Company. Through our Peruvian subsidiary, Minera Majaz SA, we are devoting greatly increased effort and funding to achieve social acceptance by the communities in the area of impact of the Project. We have an active social programme which provides information on the Project, assistance with various community projects and a community development programme, to promote sustainable development of the region. As part of our programme, the Company organises for members of the community to visit other large modern mines in Peru to demonstrate how they operate and reassure the community about the compatibility of modern mining with agriculture.

Chairman's Statement continued

In August 2007, we announced a proposal to the two communities (Yanta and Segunda y Cajas) who live within the area of influence of the proposed mine, to establish two US\$40 million private funds to be used for community projects of their choice. Monterrico will provide the seed capital to establish the funds; later contributions will be financed from profits from the Rio Blanco mine. This is a voluntary initiative by the Company and is in addition to the share of revenues that these communities will receive from taxes and royalties once the mine comes into production.


I am pleased to report that the Company and the Project continue to enjoy strong support from the Peruvian Government at national and regional level. In the 12 months since his election in 2006, President Garcia has proved himself a strong supporter of mining and of the Rio Blanco Project, which he recognises as important for the greater prosperity of the country. Evidence for this Government support was demonstrated recently when anti-mining NGOs from outside the region, instigated a symbolic "popular consultation" amongst three communities in the vicinity of the mine project on 16 September. The Peruvian Government described this exercise as illegal and unrepresentative of wider views within the region. It said that the negative results would not be binding, and called for dialogue and conciliation – something to which the Company is strongly committed.

This support was also demonstrated in August when the Peruvian Government signed Stability Agreements with Monterrico's two subsidiary companies in Peru. These agreements provide formal registration of the Company's investment in Peru. They guarantee that the tax and labour conditions will remain unchanged for ten years, free transferability of foreign currency, non-discrimination regarding exchange rates and free trade of mineral products.

Copper Market

The London Metal Exchange copper price (three month) started the year at US\$6,300 per tonne, having fallen from the record highs of US\$8,800 per tonne, seen in May 2006. The downward trend continued into 2007 as fund liquidation and profit taking saw the price reach a ten month low of US\$5,250 per tonne in early February. This coincided with stocks in LME warehouses increasing from 192,500 tonnes in January to a high of 215,000 tonnes. However strong consumer demand, combined with producer supply disruptions, caused the stocks to be drawn down to 112,600 tonnes by the end of June. The copper price reacted accordingly and closed the period at US\$7,578 per tonne.

Since the end of June concerns over sub-prime debt has caused uncertainty in the markets generally and copper has not escaped unaffected, reaching a low of US\$6,730 per tonne in mid-August, before recovering to US\$7,780 per tonne currently.



The copper price during the period and for the foreseeable future is dominated by the impact of the developing economies of China, India, Russia and Brazil. These economies are at a stage in their development when metal usage is at its highest and, despite attempts to control growth in China, metal consumption is predicted to remain strong.

The current copper price will encourage new projects, which in time will help to redress the supply demand balance and even cause periods of surpluses. However, after the extended period of low metal prices until 2003/04 (with prices falling in real terms) it is widely thought that we are now witnessing a period of revaluation, and that the copper price has moved out of its 25 year range and has established new, higher price parameters for the metal.

Financials

The US dollar has been adopted as the Company's presentation currency for these interim results and accordingly the financial results for prior periods have been restated in that currency.

The focus of expenditure during the first half year of 2007 was on the social programmes, the environmental and social impact assessment and the review of the DFS for the Rio Blanco Project. The Company did not generate any income from operations except that from interest. The operating loss during the period was US\$8,998,000 (30 June 2006: US\$4,289,000) including US\$5,930,000 of non-recurring costs which were associated with the takeover by the Zijin Consortium; these were mainly payments to Monterrico's financial and legal advisors. Net interest earned amounted to US\$179,000 (30 June 2006: US\$325,000). The total loss for the period was US\$8,899,000 (30 June 2006: US\$3,964,000).

Since the Consortium's acquisition of its majority shareholding, the Company has entered into three loan agreements with the Zijin Consortium. These loans comprise: £2,000,000, (announced on 1 May 2007), US\$8,000,000 (announced on 3 July 2007) and US\$6,000,000 (announced on 23 August 2007). The first two were to meet working capital requirements. The third was to provide initial capital to finance the two Trust Funds which the Company proposed for the benefit of communities in the area of influence of the Rio Blanco Project; this loan has yet to be drawn down.

During the period the Company has written off exploration costs of US\$493,000, following its decision not to proceed with its option to purchase a 90% interest in the Monarc Gold property from Back Arc Minerals, via a farm-in arrangement.

At the end of the period, total capitalised expenditure costs amounted to US\$40,537,000 (30 June 2006: US\$27,240,000).

Cash reserves at the end of August amounted to \$8,740,000.

Chairman's Statement continued

Conclusions

The Company has benefited considerably from the acquisition of a majority shareholding by the Zijin Consortium. The Consortium has brought strong new leadership and management, greatly increased technical and financial backing, and a firm commitment to working with the communities to achieve social acceptance for the development of Rio Blanco. Taken together, these form a firm foundation for taking forward what is generally recognised to be one of the most important copper/molybdenum projects in the world.

We will continue to keep our shareholders and the market informed of developments as we go forward. Meanwhile, I should like to thank all our stakeholders for their continued loyalty and support.



Richard Ralph

Chairman

21 September 2007

Independent Review Report to Monterrico Metals plc

For the six months ended 30 June 2007

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007 which comprises the condensed income statement, the condensed balance sheet, the condensed statement of changes in shareholders' equity, the condensed statement of cash flows and the related notes 1 to 6. We have read the other information contained in the interim report which comprises only the Chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

This report is made solely to the Company in accordance with guidance contained in APB Bulletin 1999/4 "Review of Interim Financial Information". Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in a review 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 for our review work, for this report, or for the conclusion we have formed.

Directors' Responsibilities

The Interim Report including the financial information contained therein is the responsibility of, and has been approved by, the Directors. They are responsible for preparing the Interim Report and ensuring that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review Work Performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of Interim Financial Information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards of Auditing (UK & Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

Grant Thornton UK LLP

Grant Thornton UK LLP

Chartered Accountants

London

21 September 2007

Condensed Income Statement

For the six months ended 30 June 2007

		6 months to 30 June 2007 US\$000 (unaudited)	6 months to 30 June 2006 US\$000 (unaudited)	Year to 31 December 2006 US\$000 (unaudited)
	Note			
Administrative expenses		(2,611)	(2,714)	(4,154)
Non-recurring administrative expenses	2	(5,930)	–	–
Other operating income/(expense)		36	(1,575)	201
Exploration costs written off		(493)	–	–
Operating loss		(8,998)	(4,289)	(3,953)
Finance income		179	325	845
Finance expense		(80)	–	(1,160)
Loss from continuing operations before tax		(8,899)	(3,964)	(4,268)
Taxation		–	–	–
Loss for the period		(8,899)	(3,964)	(4,268)
Basic and diluted loss per ordinary share (US cents)	3	(33.8)	(16.1)	(16.8)

Condensed Balance Sheet

For the six months ended 30 June 2007

	6 months to 30 June 2007 US\$000 Note	6 months to 30 June 2006 US\$000 (unaudited)	Year to 31 December 2006 US\$000 (unaudited)
Assets			
Property, plant and equipment	267	291	297
Intangible assets – deferred exploration costs	40,537	27,240	35,176
Total non-current assets	40,804	27,531	35,473
Other receivables and prepayments	3,713	2,602	3,497
Cash and cash equivalents	2,402	21,974	12,576
Total current assets	6,115	24,576	16,073
Total assets	46,919	52,107	51,546
Equity			
Issued share capital	4,546	4,546	4,546
Share premium	50,178	50,178	50,178
Share option reserve	1,413	752	1,092
Foreign currency translation reserve	3,328	3,009	2,494
Retained losses	(17,226)	(8,023)	(8,327)
Total equity	4	42,239	50,462
Liabilities			
Trade and other payables	633	1,645	1,563
Loans	4,047	–	–
Total current liabilities	4,680	1,645	1,563
Total equity and liabilities	46,919	52,107	51,546

Condensed Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2007

	Share capital US\$000	Share premium US\$000	Share option reserve US\$000	Foreign currency translation reserve US\$000	Retained loss US\$000	Total equity US\$000
Balance at 1 January 2006 (unaudited)	3,861	32,998	350	–	(4,059)	33,150
Foreign currency translation differences	–	–	–	3,009	–	3,009
Net income recognised directly in equity	–	–	–	3,009	–	3,009
Loss for the period	–	–	–	–	(3,964)	(3,964)
Total recognised loss for the period	–	–	–	3,009	(3,964)	(955)
Issue of share capital	685	17,792	–	–	–	18,477
Transaction costs on issue of shares	–	(612)	–	–	–	(612)
Credit arising on share options	–	–	402	–	–	402
Balance at 30 June 2006 (unaudited)	4,546	50,178	752	3,009	(8,023)	50,462
Foreign currency translation differences	–	–	–	(515)	–	(515)
Net income recognised directly in equity	–	–	–	(515)	–	(515)
Loss for the period	–	–	–	–	(304)	(304)
Total recognised loss for the period	–	–	–	(515)	(304)	(819)
Credit arising on share options	–	–	340	–	–	340
Balance at 31 December 2006 (unaudited)	4,546	50,178	1,092	2,494	(8,327)	49,983
Balance at 1 January 2007 (unaudited)	4,546	50,178	1,092	2,494	(8,327)	49,983
Foreign currency translation differences	–	–	–	834	–	834
Net income recognised directly in equity	–	–	–	834	–	834
Loss for the period	–	–	–	–	(8,899)	(8,899)
Total recognised loss for the period	–	–	–	834	(8,899)	(8,065)
Credit arising on share options	–	–	321	–	–	321
Balance at 30 June 2007 (unaudited)	4,546	50,178	1,413	3,328	(17,226)	42,239

Condensed Statement of Cash Flows

For the six months ended 30 June 2007

	6 months to 30 June 2007 US\$000 Note	6 months to 30 June 2006 US\$000 (unaudited)	Year to 31 December 2006 US\$000 (unaudited)
Cash flows from operating activities			
Loss after tax	(8,899)	(3,964)	(4,268)
Depreciation	45	33	64
Share-based payment expense	5 321	402	742
Increase in other receivables and prepayments	(131)	(7)	(702)
Increase in trade and other payables	968	619	469
Intangible assets written off	493	–	–
Cash used in operations	(7,203)	(2,917)	(3,695)
Interest received	179	325	845
Net cash outflow from operating activities	(7,024)	(2,592)	(2,850)
Cash flows from investing activities			
Acquisition of property, plant and equipment	(12)	(88)	(129)
Acquisition of intangible assets	(5,702)	(4,970)	(12,026)
Net cash outflow from investing activities	(5,714)	(5,058)	(12,155)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital	–	18,477	18,477
Payment of issue costs	–	(612)	(612)
Proceeds from issue of loan	4,012	–	–
Net cash inflow from financing activities	4,012	17,865	17,865
Net (decrease)/increase in cash and cash equivalents	(8,726)	10,215	2,860
Cash and cash equivalents at beginning of period	12,576	9,650	9,650
Exchange differences	(1,448)	2,109	66
Cash and cash equivalents at end of period	2,402	21,974	12,576

Notes to the Condensed Interim Financial Information

For the six months ended 30 June 2007

1 Basis of Preparation of Interim Financial Information

The condensed interim financial information of Monterrico Metals is presented in US dollars and has been prepared on the historical cost basis.

Prior to 2007, the Group prepared its audited financial statements and unaudited interim financial information under UK Generally Accepted Accounting Principles (UK GAAP). From 1 January 2007, the Group is required to prepare annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and implemented in the UK. As the 2007 annual financial statements will include comparatives for 2006, the Group's date of transition to IFRS is 1 January 2006 with the 2006 comparatives restated to IFRS. Thus this condensed interim financial information for the period ended 30 June 2007 has been prepared by applying the recognition and measurement provisions of IFRS and the accounting policies to be adopted for the annual accounts. These policies are summarised in note 6 on page 14.

An exercise to assess the full impact that the change to IFRS has had on the Group's reported equity, reported losses and accounting policies has been completed. In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its previous basis of accounting (UK GAAP).

The Group has elected to apply the following exemptions from full retrospective application.

- (a) Business combinations: The Group has chosen not to restate business combinations prior to 1 January 2006 in accordance with IFRS 3.
- (b) Fair value or revaluation as deemed cost: The Group has chosen not to restate items of property, plant and equipment to fair value at the transition date.
- (c) Cumulative translation differences: The Group has elected to set the previously accumulated translation difference to zero at the date of transition.
- (d) Share-based payments: The Group has elected to apply IFRS 2 only to those options that were granted after 7 November 2002 but that had not vested by 1 January 2006.

It should be noted that:

1. The adoption of IFRS does not result in any material changes to the Group's accounting policies.
2. The adoption of IAS 21, "The effects of changes in foreign exchange rates", has resulted in cumulative translation differences arising since 1 January 2006 to be classified as a separate reserve within equity. This change in presentation does not effect the total equity of the Group at each balance sheet date.
3. There are no adjustments to the income statement as a consequence of the first time adoption of the IFRS.
4. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP, other than to reclassify certain cash movements between categories of cash flows.

In preparing this condensed interim financial information, the Directors have decided to adopt US dollars as the Group's presentation currency, being the currency which the Directors believe

that investors prefer to review the results of the Group, and accordingly have retranslated the financial results for prior periods into that currency.

The financial information for the 12 months ended 31 December 2006 has been derived from the Group's audited financial statements for the period as filed with the Registrar of Companies and adjusted for the transition to IFRS. It does not constitute the financial statements for that period. The auditors' report on the statutory financial statements for the year ended 31 December 2006 was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.

2 Non-Recurring Administrative Expenses

Non-recurring administrative expenses are mainly one-off legal and advisory costs incurred in respect of the successful takeover by the Zijin Consortium in 2007.

3 Loss Per Share

The calculation of total loss per ordinary share on total operations is based on losses of US\$8,899,000 (12 months to 31 December 2006: US\$4,268,000 and six months to 30 June 2006: US\$3,964,000) and the weighted average number of ordinary shares outstanding of 26,306,068 (at 31 December 2006: 25,445,625 and 30 June 2006: 24,570,920). There is no difference between the diluted loss per share and the loss per share presented.

At 30 June 2007 there were 345,000 (31 December 2006: 2,450,000 and 30 June 2006: 2,470,000) share options in issue which have a potentially dilutive effect on the basic earnings per share in the future.

4 Capital and Reserves

Shares Issued

No shares were issued in the six months to 30 June 2007.

Share Options and Warrants

On 25 April 2007 the Company cancelled 1,937,550 share options that were in the money as a result of the successful offer made for the Company by Xiamen Zijin Tongguan Investment Development Co., Ltd (Zijin Consortium). The difference between the offer price and the exercise price was paid to the holders of the cancelled share options.

The Company did not issue any share options in the six months to 30 June 2007.

Foreign Currency Translation Reserves

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that do not have a US dollar functional currency. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the operation is disposed of.

Notes to the Condensed Interim Financial Information continued

For the six months ended 30 June 2007

4 Capital and Reserves *continued*

Other Reserves

The share option reserve includes an expense based on the fair value of share options issued since 7 November 2002 that had not vested as at 1 January 2006.

Dividends

The Directors do not recommend the payment of a dividend.

5 Share-Based Payments

The Group issues share-based payments to certain individuals, which are measured at fair value at date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The Group recognised a total expense of US\$321,000 relating to equity-settled share option scheme transactions in the period ended 30 June 2007 (30 June 2006: US\$402,000).

6 Summary of Significant Accounting Policies

(a) Basis of Consolidation

(i) Subsidiaries

The condensed interim financial information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to each reporting period end. Control is recognised where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

(ii) Transactions Eliminated on Consolidation

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign Currency Translation

(i) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The condensed interim financial information is presented in US dollars, which is the Group's presentation currency.

(ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, cumulative exchange differences that were previously recorded in equity are recognised in the income statement as part of the gain or loss on sale. In accordance with the transitional provisions of IFRS 1, the cumulative foreign currency gain or loss has been deemed to be zero as at the date of transition, being 1 January 2006.

(c) Property, Plant and Equipment

All items of property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement during the financial period in which they are incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item, as follows:

Office equipment, fixtures and fittings: 3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

(d) Deferred Exploration and Evaluation Costs

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written off as incurred.

Exploration and evaluation costs arising following the acquisition of an exploration licence are capitalised on a project-by-project basis, pending determination of the technical feasibility and commercial viability of the project. Costs incurred include technical expenses and allocated administrative overheads. Deferred exploration costs are carried at historical cost less any impairment losses recognised.

Notes to the Condensed Interim Financial Information continued

For the six months ended 30 June 2007

6 Summary of Significant Accounting Policies *continued*

If an exploration project is successful and it is brought into production, the related expenditures are depleted on a unit of production basis, or until the properties are sold, allowed to lapse, abandoned or determined not to be economically viable, at which time they are charged to the income statement.

Capitalised deferred exploration expenditures are reviewed for impairment losses (see accounting policy Note (g) below) at each balance sheet date. In the case of undeveloped properties, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding results of exploration or evaluation work to date and the Group's intentions for development of the related property.

(e) Other Receivables and Prepayments

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(f) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Impairment

Whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable, the asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) if that is less than the asset's carrying amount.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise but typically when one of the following circumstances apply:

- (i) Unexpected geological occurrences that render the resource uneconomic.
- (ii) Title to the asset is compromised.
- (iii) Variations in metal prices that render the project uneconomic.
- (iv) Variations in the currency of operation.
- (v) The Group determines that it no longer wishes to continue to evaluate or develop the property.



(h) Share-Based Payments

Certain Group employees and consultants are rewarded with share-based instruments.

All share-based payment arrangements granted after 7 November 2002 are recognised in the financial statements. IFRS 2 has been applied to grants before 7 November 2002 only where the Group has disclosed publicly the fair value of those equity instruments, determined as at the grant date in accordance with IFRS 2.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received, net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

(i) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events and it is likely that resources will be required to settle the obligation and the amount can be reliably estimated.

When a liability is initially recorded, a corresponding increase to the carrying amount of the related asset is recorded. On an annual basis, the fair value of the future liability for an asset retirement obligation is recognised in the period in which it is incurred with an offsetting amount being recognised as an increase in the carrying amount of the corresponding asset. This asset is amortised over the estimated life of the mine while the corresponding liability accretes to its future value by the end of the mine's life. Ongoing expenditures related to the protection of the environment are charged to earnings in the period they are incurred.

Notes to the Condensed Interim Financial Information continued

For the six months ended 30 June 2007

6 Summary of Significant Accounting Policies continued

(j) Trade, Other Payables and Accruals

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value and all transaction costs are recognised immediately in the income statement. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

(k) Income Tax

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

(l) Investment in Subsidiaries

Investments in subsidiaries are recognised at cost, less any provision for impairment.

(m) Revenue

Interest Income

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(n) Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on managements' best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements.

Corporate Information

Company Registration Number

4236974

Registered Office

Monterrico Metals plc
10 Foster Lane
London EC2V 6HR
Tel: +44 (20) 7776 2900
Fax: +44 (20) 7776 2909
Email: info@monterrico.com
Website: www.monterrico.com

Peru Office

Minera Majaz S.A. (Peru)
Calle 9 #315
Urb. Córpac
San Isidro
Lima 27
Peru
Tel: +511 226 3322
Fax: +511 226 3320

Directors

Richard Ralph – Chairman (Non-Executive)
Xiaodong Huang – Chief Executive Officer
Shan Shan (Susan) Li – Finance Director
Guobin Hu – Technical Director
Raymond Angus – Non-Executive Director
Wenzhou Huang – Non-Executive Director
Harry Cooper – Non-Executive Director

Company Secretary

Shan Shan (Susan) Li

Registrars

Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Nominated Adviser and Broker

Ambrian Partners Limited
8 Angel Court
London EC2R 7HP

Solicitors to the Company

Lawrence Graham LLP
4 More London Riverside
London SE1 2AU

Reporting Accountants and Auditors

Grant Thornton UK LLP
Registered Auditors
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

Share Capital (as at 21 September 2007)

Issued and outstanding: 26,306,068
Fully diluted: 26,651,068

Notes



Monterrico Metals plc

Corporate Head Office

10 Foster Lane
London EC2V 6HR

Tel: +44 (20) 7776 2900

Fax: +44 (20) 7776 2909

Email: info@monterrico.com

www.monterrico.com

