CHACO RESOURCES PLC
(Company Number 4030166)

Report and Financial Statements
for the year ended 31 March 2007

CONTENTS

CORPORATE DIRECTORY

DIRECTORS

Giles Clarke (Non Executive Chairman)

Dick van den Broek (Non Executive Deputy Chairman)

John Wardle (Chief Executive Officer)

Victor Valdovinos (Executive Director)

Nick Harrison (Finance Director)

Graeme Stephens (Non Executive Director)

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REPORT FROM THE CHAIRMAN

Introduction

Your Company has seen major changes at the end of this year since I became Chairman, after a year of disappointing progress

New management
I became your Chairman in February 2007 towards the end of the financial year, and Dr John Wardle became Chief Executive Nick Harrison became Finance Director in April 2007 and Dick van den Broek joined the Board as Deputy Chairman in May 2007 I commend them to you

I expect to announce further non-executive appointments during the course of the current year

Dr Wardle has established a strong executive team in Colombia in preparation for solid growth in our activities there Mr Valdovinos, the Director with particular responsibility for Paraguay, has built a firm presence for the Company in Asunción, and we expect to add further high calibre personnel

As a result of these changes, a number of former Directors stepped down including Jon Pither, who chaired the Company for several years as both Gold Mines of Sardinia and Chaco, John Morris, who was Chief Executive, Douglas Jendry, Martin Groák who was Finance Director and Nicola Brookes who replaced him

Operations
The new management is now focussed on prioritising the Company's most prospective regions with existing discoveries at Alea and on the new Fénix block At the same time, the Company has withdrawn from Puerto Lopez Oeste as new seismic data did not indicate the area to be commercially viable. In addition, drilling at Primavera was unsuccessful

The Company has made progress with its Platanillo block, which has existing contingent and prospective resources and discoveries at Alea, and we can expect a very busy period ahead on the block as we drive forward the work programme to deliver near term production for the Company

I am delighted to announce that the operator (Ecopetrol) received the environmental license in April 2007, which has effectively removed the principal impediment to progress The maintenance of existing road and upgrade of the two bridges is making excellent progress, and is now 65% complete We estimate that this will be largely complete by the end of the first half of this calendar year

A workover rig will be used to re-enter Alea-1, with operations due to begin in Q4 2007 I would like to reiterate that Alea 1 was drilled in 1988 and tested an oil discovery at 533 bpd We can expect further drilling on the Platanillo block at Platanillo 1 and 2 which will be drilled in the last quarter of the year Dependent upon results, Platanillo-3 could spud Q2 2008

Our new acquisition of a significant interest in the Fénix block in the Middle Magdalena Basin, an area of proven oil fields of very commercially attractive size, has given us another important asset to rank alongside Platanillo, and also a partnership with the Montoya Group, one of the largest commercial enterprises in Colombia Your Board regards this as a relationship which the Company will seek to foster and more opportunities will flow from this The block is in a proven petroleum system with previous wells on the Block discovering oil The region itself has been a prolific producer of oil over many years with discovered reserves of approximately 1 9 billion barrels of oil and 2 5 TCF of gas in over 41 distinct fields

The Company has a busy time ahead on the Fénix block as we work to get to production as soon as possible Scouting and reconnaissance is now largely complete and the Directors are very pleased with what has been discovered As a result, 3D seismic has been bid out and prices received are in line with budget We will be awarding the contract shortly 2D reprocessing has already been bid out and work will begin mid-May, with results expected in June The 3D acquisition will commence in Q3 2007 and be completed by the end of the year The results will then be interpreted with drilling location identified in Q2 2008 and the first exploration well will be spudded in Q4 2008

We have now established several interesting areas for exploration in Paraguay, and the coming year will see a significant amount of seismic studies to enable us to focus drilling activities Our Paraguayan subsidiary, Bohemia S.A was awarded an evaluation permit over a third area, Alto Paraná We will be

REPORT FROM THE CHAIRMAN (CONTINUED)

taking this acreage forward with 2D seismic acquisition on San Pedro & Alto Paraná in Q4 2007, with the seismic interpretation being completed by Q3 2008 and a potential spud date Q2 2009

Corporate
During the past year, the Company placed 26,666,667 new ordinary shares at 15p per share, which raised £4m gross In addition the Company placed a further 16,500,000 new ordinary shares at 11 5p per share, which raised £1 9m gross

During the period, losses increased from £811,000 to £5,427,000, including an exceptional item of £4,295,000, representing primarily a provision for impairment of investments in Primavera and Puerto Lopez Oeste Loss per share increased from 0 18p to 1 02p (0 21p before exceptionals)

Since I became Chairman, we have changed our Nominated Adviser and Broker to Blue Oar Securities Plc, who have an excellent oil and gas team, and FD have become our PR adviser

Your Board have determined that a change of name would more appropriately describe the Company's area of activity, and will be proposing at the AGM that the Company's name be changed to Amerisur Resources plc

Outlook
Your Company has seen major changes at the end of this year since I became Chairman, after a year of disappointing progress

We now have an outstanding team in place and a focussed strategy of delivering near term cash flows and value to shareholders

The new Board anticipates an improvement in exploration results as the Company moves to becoming an oil producer from lower risk exploration acreage with the known presence of hydrocarbons I look forward to reporting on the progress we will be making throughout the coming year

Giles Clarke
Chairman
3 May 2007

DIRECTORS' REPORT

The Directors present their report for the year ended 31 March 2007

PRINCIPAL ACTIVITIES

The principal continuing activity of the Company and the Group is investing in oil and gas exploration and development in South America, principally in Paraguay and Colombia

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES OF DIRECTORS

The names and details of the Directors of the Company in office during the year to 31 March 2007 and/or as at the date of this report were as follows

GILES CLARKE (Chairman – Non Executive)

Mr Clarke (53) has considerable experience in the City and a number of commercial interests He is Chairman and controlling shareholder of Westleigh Investments, a West Country group of businesses Mr Clarke is currently non-executive Chairman of Pure Wafer plc, which listed on AIM in 2004, a non-executive Director of the England and Wales Cricket Board, a National Council member of the Learning and Skills Council and Chairman of several private organisations He founded Majestic Wine in 1981 and built it into a national chain of wine warehouses He also co-founded Pet City in 1990, which he expanded nationwide, before it was listed and subsequently sold, in 1996, for $150 million He also co-founded Safestore plc, and orchestrated the sale of the company to Bridgepoint in 2003

DICK VAN DEN BROEK (Deputy Chairman – Non Executive)

Mr van den Broek (68) has spent 33 years working in many different assignments worldwide for Royal Dutch Shell (RDS) His last assignment with RDS was as Regional Director for Latin America & Africa, and a Director of Shell International Petroleum, with full responsibilities for all RDS activities in those continents, both upstream and downstream In Latin America, these included significant upstream transactions in Colombia, Peru, Argentina and Venezuela, and many negotiations with government bodies throughout the region

Since his retirement from RDS he has acted as a consultant on strategic and policy related issues to various international institutions, such as Accenture in Russia and India, the European Bank for Reconstruction and Development for the Romanian oil industry and the Commonwealth Development Corporation in the Philippines

He is an active participant in institutions focused on Latin America such as Canning House and the Anglo-Venezuelan Society He is of Dutch nationality, based in London, and has a Masters degree in Economics from Erasmus University in Rotterdam (NL)

JOHN WARDLE (Executive Director – Chief Executive Officer and Technical)

Dr Wardle (47) has been Chaco's Resident Manager in Colombia since 2006, where he has responsibility for the implementation of all of Chaco's operations He holds a B Sc in Mining Engineering from the University of Nottingham and a Ph D in Rock Mechanics and Geophysics from the University of Wales He is an experienced drilling engineer, having worked with BP, and has held a number of senior management positions with oil exploration companies Dr Wardle has been resident in Colombia since 1994, when he was working for BP Exploration Colombia, and subsequently was General Manager for Emerald Energy in Colombia, when he was responsible for the discovery of the Campo Rico and Vigia oilfields

DIRECTORS' REPORT (CONTINUED)

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES OF DIRECTORS (CONTINUED)

VICTOR M VALDOVINOS (Regional Director – South America)

Mr Valdovinos (42) is a Paraguayan lawyer, with a Masters degree in Energy and Environmental Law from Tulane University School of Law, and is resident in Asunción He has been a legal advisor to both the United Nations Development Programme and the Minister of the Environment for the Government of Paraguay and has a professional affiliation to the Environmental Law Institute in Washington Mr Valdovinos is the Group's Regional Director for South America, dealing with administrative issues in Paraguay and Colombia

NICK HARRISON (Finance Director)

Mr Harrison (48) is a graduate of Liverpool University He qualified with Arthur Andersen and subsequently worked at Deloittes, Midland Bank (International) and Coopers & Lybrand in Africa He was Finance Director of Pet City Plc and has been Finance Director of a number of private companies with international activities

GRAEME STEPHENS (Non Executive Director – Technical)

Mr Stephens (66) is a geologist based in Western Australia He has been involved in the oil industry for over 45 years, including Managing Director of LASMO Oil (Colombia) Ltd for two years in the 1990s and prior to that, Resident Manager of Marathon Oil's northern Brazil operation He has also been the Managing Director of three publicly listed oil companies in Australia

The following Directors held office during the financial year but no longer hold office as of the date of this report

Mr Jon Pither – Deputy Chairman – resigned 17 April 2007
Mr Doug Jendry – Non Executive Director – resigned 17 April 2007
Ms Nicola Brookes – Finance Director – resigned 17 April 2007
Mr Martin Groák – Non Executive Director – resigned 17 April 2007
Mr John Morris – Non Executive Director – resigned 2 May 2007

The following Directors were appointed during the financial year

Mr Giles Clarke – Non Executive Chairman – appointed 27 February 2007
Dr John Wardle – Chief Executive Officer – appointed 27 February 2007

The following Directors were appointed subsequent to the year end

Mr Nick Harrison – Finance Director – 17 April 2007
Mr Dick van den Broek – Deputy Chairman – 3 May 2007

DIRECTORS' REPORT (CONTINUED)

DISCLOSURE OF DIRECTORS' INTERESTS

The beneficial and other interests of the Directors and their families in the shares of the Company and its subsidiary undertakings as at 31 March 2007 and 1 April 2006 (or date of appointment, if later) were as follows

	Shares Held 1 April 2006 (or date of appointment if later)	Shares Held 31 March 2007
G Clarke*	2,912,268	2,912,268
J Pither**	984,020	2,159,020
J Morris***	2,600,000	2,600,000
M Groák**	-	-
V Valdovinos	-	-
D Jendry**	2,000,000	3,000,000
G Stephens	125,000	2,625,000
N Brookes**	50,000	50,000
J Wardle*	883,333	883,333

* Appointed 27 February 2007
** Resigned 17 April 2007
*** Resigned 2 May 2007

	Unlisted Options Held 1 April 2006 (or date of appointment if later)	Unlisted Options Held 31 March 2007
G Clarke*	-	-
J Pither**	1,000,000	-
J Morris***	1,000,000	1,000,000
M Groák**	1,000,000	1,000,000
V Valdovinos	1,000,000	1,000,000
D Jendry**	1,000,000	-
G Stephens	2,500,000	-
N Brookes**	-	1,000,000
J Wardle*	-	-

* Appointed 27 February 2007
** Resigned 17 April 2007
*** Resigned 2 May 2007

The Company has a joint venture agreement with Expet S.A , a South American firm in which Dr Wardle is a Partner Further information is contained in Note 21 to the Financial Statements

RETIREMENT OF DIRECTORS

In accordance with the Company's Articles of Association, Messrs Valdovinos and Stephens retire by rotation and will be seeking re-election Mr Clarke, Mr Harrison, Mr van den Broek and Dr Wardle, being Directors appointed since the last Annual General Meeting, will retire and seek re-election

DIRECTORS' REPORT (CONTINUED)

RESULT AND DIVIDENDS

- There was a loss for the year after taxation of £5,427,000 (2006 loss of £811,000)
- The Directors recommend that no final dividend be declared or paid for the year ended 31 March 2007

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

- **Primavera Exploration and Production (E&P) contract**

  On 9 May 2006 the Primavera E&P contract was signed by the Operator, Gran Tierra Energy Inc (formerly Argosy Energy International)

- **Placing of shares**

  On 18 May 2006 the Company raised £4,000,000 (before expenses) through the placing of 26,666,667 new ordinary shares at 15p per share The placing was made to institutional investors and to provide the Company with further working capital for its ongoing operations in South America

- **Appointment of Director**

  On 8 June 2006 Ms Nicola Brookes was appointed a Director of the Company and replaced Mr Groák as the Finance Director

- **Third area in Paraguay (Canindeyu) Awarded**

  On 30 October 2006 the Company's subsidiary, Bohemia S A , received approval of its hydrocarbon application for an exploration block over an area of 1,798,000 hectares in the Paraná basin in the south east of Paraguay, known as the Canindeyu block (subsequently renamed Alto Paraná), and was issued with an evaluation (prospecting) permit for one year

- **Appointment of Resident Manager**

  On 24 November 2006 Dr John Wardle was appointed as the Company's Resident Manager in Colombia, based in Bogotá

- **Rig Contract for Primavera Signed**

  On 22 December 2006 the Company announced that the Operator of the Primavera block in the Llanos Basin of Colombia, Gran Tierra Energy Inc, had secured a contract for a drilling rig to drill two wells in the block

- **Amalgamation of Years 1 and 2 of Platanillo E&P Contract**

  On 27 December 2006 the Company announced that Ecopetrol, the Operator of the Platanillo Block in Colombia, had obtained approval from the National Hydrocarbon Agency (ANH) to amalgamate years 1 and 2 of the Platanillo E&P Contract

- **Withdrawal from Puerto Lopez Oeste**

  On 18 January 2007 the Company announced that new seismic data did not indicate the presence of structures large enough to be considered commercially viable Consequently, the Company decided to withdraw from the next stage of exploration

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)

- **Placing of shares**

  On 27 February 2007 the Company raised £1,900,000 (before expenses) through the placing of 16,500,000 new ordinary shares at 11 5p per share The placing was made to institutional investors in order to further finance investment in exploration projects and to provide the Company with further working capital for its ongoing operations in South America

- **Appointment of Directors**

  On 27 February 2007 Mr Giles Clarke was appointed a Director and Chairman of the Company
  On 27 February 2007 Dr John Wardle became Chief Executive Officer of the Company

- **Primavera drilling commences**

  On 28 March 2007, the Company announced that drilling had commenced at the Cachapa well in the Primavera block in the Llanos basin

- **Exercise of Options / Issue of shares**

  During the year, three Directors exercised their options over a total of 4,500,000 ordinary shares in the capital of the Company and an equal number of ordinary fully paid shares were allotted to those Directors

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- **Cachapa #1 well**

  On 5 April 2007 the Company announced that drilling had completed at the Cachapa #1 well in the Primavera block and had not encountered commercial quantities of hydrocarbons The well has been plugged and abandoned

- **Sayona #1 well**

  On 23 April 2007 the Company announced that drilling had completed at the Sayona #1 well in the Primavera block and had not encountered commercial quantities of hydrocarbons The well has been plugged and abandoned

- **Fénix farm-in agreement**

  On 25 April 2007 the Company announced that it had signed a farm-in agreement with Fénix Oil and Gas S A (Fénix)

- **Changes in Board Structure**

  On 17 April 2007 Messrs Jon Pither, Martin Groák, Doug Jendry and Ms Nicola Brookes resigned as Directors of the Company On the same day Mr Nick Harrison was appointed as Finance Director, Mr David Parsons resigned as Company Secretary and Mr Brian James was appointed in his stead

  On 2 May 2007 Mr John Morris resigned as a Non Executive Director of the Company

  On 3 May 2007 Mr Dick van den Broek was appointed a Director of the Company

DIRECTORS' REPORT (CONTINUED)

BUSINESS REVIEW

The Business Review is presented on page 14 It includes

- A review of the business during the year
- A description of the principal risks and uncertainties facing the Group at this stage in its development

An analysis of the business using financial and non-financial Key Performance Indicators is not included as, in the opinion of the Directors, given the current stage of development of the business and its operations, there are no appropriate financial or non-financial Key Performance Indicators that can be disclosed at this time

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)

United Kingdom 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 Company and of the profit or loss of the Group for that period In preparing those financial statements, the Directors are required to

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

In so far as the Directors are aware

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group uses financial instruments, other than derivatives, comprising borrowings, cash and other liquid resources and various other items such as trade 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 financial instruments are liquidity risk and foreign currency risk and, to a limited extent, interest rate risk The Directors review and agree policies for managing each of these risks and they are summarised below The policies have remained unchanged from previous periods

DIRECTORS' REPORT (CONTINUED)

Liquidity Risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably During the exploration phases of the Group's development, fundraising has been achieved through private placings, which are regarded as the most cost-effective method of fundraising The Group policy throughout the year has been to ensure continuity of funding so that planned fundraisings cover at least 100% of contractual obligations and 12 months of operating and administration costs Short term flexibility is achieved by overdraft facilities

Currency Risk

The Group is exposed to transaction and translation foreign exchange risk In relation to translation risk, assets held in foreign currency are in the form of cash for specific obligations in that same currency and are therefore not separately hedged Transaction exposures are hedged when known, mainly using the forward hedge market

Interest Rate Risk

The Group finances its operations through a mixture of equity placing and limited short-term bank borrowings The Group's exposure to interest rate fluctuations on its borrowings is therefore not material

GOING CONCERN

After making appropriate enquiries, in the light of the planned fund raising, and in view of the Group's ability to manage its cash outflows proactively, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

SUBSTANTIAL SHAREHOLDERS

At 16 April 2007 the following had a disclosable interest in 3% or more of the nominal value of any class of the Company's shares carrying voting rights

Name	Shareholding	Percentage
Pershing Keen Nominees Limited PSL981 Account	106,631,707	19 2
Chase Nominees Limited	30,213,700	5 4
TD Waterhouse Nominees (Europe) Limited	25,156,411	4 5
Barclayshare Nominees Ltd	21,481,329	3 9
LR Nominees Limited Nominee Account	19,980,641	3 6
Pershing Keen Nominees KSCLT Account	17,854,844	3 2
Cantor Fitzgerald Europe	17,750,000	3 2
Homestake Mining Company of California	17,334,396	3 1

SHARE OPTIONS

Unissued shares
As at the balance sheet date there were 6,800,000 unissued ordinary shares of 0 1p under options Note 15 of the financial statements sets out further details of the options outstanding Historical share price data is set out in the supplementary information on page 36

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme

PAYMENT POLICY AND PRACTICE

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them Trade creditors at the year-end were paid at an average of 21 days

DIRECTORS' REPORT (CONTINUED)

INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')

The Group is required to issue its March 2008 financial statements in accordance with IFRS, including the September 2007 interims The Directors have started to consider the implications of these requirements, and in particular which areas of the Group's balance sheet and results would be significantly affected by the adoption of IFRS This process has not been completed to date, but the key areas where differences in treatment between UK GAAP and IFRS may arise include

IFRS 3 - Business combinations

IAS 31 - Interests in joint ventures

IAS 36 - Impairment of assets

IAS 21 - The effects of changes in foreign exchange rates

IFRS 6 - Exploration for and evaluation of mineral resources

The Directors have considered the requirements of IFRS 2 – Share based payments (FRS 20 in UK GAAP) and have made provision for share options vesting after 1 April 2006 (the transition date) Further information is contained in note 15

AUDITORS

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985 A resolution to reappoint Grant Thornton UK LLP as auditors will be put to shareholders at the Annual General Meeting

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on the date stated in the Notice of Meeting, which accompanies this Annual Report.

Signed on behalf of the Board in accordance with a resolution of the Directors

N HARRISON
DIRECTOR
3 MAY 2007

BUSINESS REVIEW

COLOMBIA

Dunng the reporting penod Chaco has held interests in three Exploration & Production ("E&P") contracts in Colombia These are

- Platanillo
- Puerto Lopez Oeste
- Pnmavera

Two of these blocks lie within the Llanos Basin and one is in the Putumayo Basin

Details of the three contract areas follow

1. PLATANILLO CONTRACT:

The current working interests in the block are

- Ecopetrol 40% (Operator)
- Repsol YPF 35%
- Chaco 25%

Contract details are as follows

- Area 14,204 hectares (142 sq km)
- Effective Contract Date 10 January 2006
- Basin Putumayo

Due to delays in the start up of operations, pnmanly caused by enhanced environmental licensing requirements, the operating committee decided to request the amalgamation of phases 1 and 2 of the Platanillo contract This request was approved by ANH on 18 December 2006 Under the terms of that approval, phases 1 and 2 of the contract are considered to carry a single working programme commitment which pnncipally requires the re-entry and testing of Alea-1 and the dnlling of 2 exploration wells, denominated Platanillo-1 and Platanillo-2 The current exploration phase will terminate on 9 January 2008

Chaco is earning its interest by funding 100% of the cost of the amalgamated programme up to a cap of US$7 4m Any additional costs above that limit will be funded by partners in proportion to their working interest

Dunng the reporting penod 20km of existing access road has been upgraded, together with the rebuilding of two bndges Technical programmes have been designed and approved, and invitations to bid have been tendered and awarded for the services and tangible goods required for the work programme All other programmed activities required the possession of an environmental license, which has been awarded subsequent to the reporting penod Severe restnctions still exist in Colombia with respect to the availability of suitable ngs to both perform the re-entry and testing of Alea-1 and the dnlling of Platanillo 1 & 2 However the Company has been advised by the Operator that first mobilisation will commence in August 2007, and the exploratory wells will be completed by mid-December 2007

Operational costs in the global petroleum industry have nsen significantly over the last 12 months and Colombia has not been immune to that trend This situation, and the inclusion of an extra exploration well in the amalgamated programme has caused an increase in the predicted final cost to approximately US$22m gross

No revisions have been made to the geological model nor to the contingent or prospective resources detailed in last year's annual report That report is available for download at <u>www chacoplc com</u>, and we respectfully refer you to it

BUSINESS REVIEW (CONTINUED)

2. PUERTO LOPEZ OESTE (PLO):

The E&P contract on this block was signed on 18 January 2006 Equities in the block were

- Chaco 54%
- Expet 34% (Operator)
- Consultoria Colombiana S A 12%

Contract details were as follows

- Area 35,700 hectares (357 sq km)
- Effective Contract Date 18 January 2006
- Basin Llanos

In excess of 300km of existing 2D seismic data was reprocessed and 106 km of new 2D seismic data was acquired in this block during 2006 The data was processed, integrated and subsequently interpreted by two independent geophysical consultancies, together with in-house interpretation by Chaco This work indicated that the structural closures within the block were very small and did not merit further exploration expenditure The block was relinquished in January 2007 Total expenditure in this block was US$1 7m (£0 9m) during the first phase All contractual commitments were fully satisfied

3. PRIMAVERA CONTRACT.

Equities in the block are

- Chaco 55%
- Expet 30%
- Gran Tierra Energy Colombia (Formerly Argosy) 15% (Operator)

Contract details are as follows

- Area 147,658 hectares (1,477 sq km)
- Effective Contract Date 8 May 2006
- Basin Llanos
- Work Programme
  Year 1
  (a) Reprocess and interpret existing seismic
  (b) Drill 2 exploration wells
  Year 2
  (a) Drill 1 exploration/appraisal well
  (b) Acquire 50km of 2D seismic

The first part of the Year 1 programme, reprocessing of existing seismic, was completed during July 2006 The detailed structural interpretation and mapping indicated the presence of structural traps caused by faulting The Company, in collaboration with the operator of the contract, decided to acquire a further 20km of 2D seismic in order to provide additional control over closure This data was acquired and interpreted by December 2006 Four initial drilling targets were identified, named Cachapa, Sayona, Capibara and Tonino The exploration targets of these wells were the high quality sandstone packages known as Carbonera 1, 3 & 5

The well Cachapa-1 was spudded on 21 March 2007, and was logged on 2 April 2007 The second well, Sayona-1, was spudded on 9 April 2007 and logged on 18 April 2007

BUSINESS REVIEW (CONTINUED)

Both wells intersected the formations prognosed from seismic analysis, and data obtained from electric logs indicated that the sand packages had very good reservoir properties Some poor shows of oil and gas were observed in both wells while drilling, but electric log data indicated that commercial hydrocarbon volumes were not present The Company believes that the structural closure at the targets was valid, and both the shows in the wells and offset well data indicate that oil has migrated through the area, however the trapping of commercial volumes of hydrocarbons did not occur This may have been caused by an insufficient charge volume or by the effect of hydrodynamic sweeping of the structure due to the strong water drive

Both wells have been plugged and abandoned, and the first phase contractual commitment has been satisfied The Company is currently performing correlation work on the drilling and log data to establish the future exploration potential of the block in order to decide whether to enter the second phase of the contract

The current exploration period terminates on 7 May 2007

Events Subsequent to Balance Sheet Date

On 25 April 2007 the Company announced the signing of a farm-in agreement to participate in the Fénix block in the Middle Magdalena Valley of Colombia

<u>FÉNIX BLOCK:</u>

Equities in the block are

- Chaco 48 75%
- Fénix 35 00%
- Expet 16 25%

The assignment of interest to Chaco by Fénix under the Farm-in Agreement is subject to approval by the relevant Colombian government authority, Agencia Nacional de Hidrocarburos ("ANH") This approval has been formally requested and is now being processed

Contract details are as follows

- Area 24,117 hectares (241 sq km)
- Effective Contract Date 12 March 2007
- Basin Middle Magdelana
- Work Programme

  Phase 1 (18 months)
  A Reprocess 100km 2D seismic
  B Carry out geological analysis of existing wells in block
  C Shoot 100 sq km of new 3D seismic

  Phase 2 (14 months)
  Drill one exploration well

The block is considered to be of very high potential and is located in the east-central part of the prolific Middle Magdelana Basin which lies between the eastern and central ranges of the Andes mountains and which has already yielded reserves of over 1 9 billion barrels of oil and 2 5TCF of gas in 41 distinct oil and gas fields

The Fénix block is located on the same linear trend as a series of significant oil and gas fields, with the closest being the Bonanza oil field of +/-19 million barrels

BUSINESS REVIEW (CONTINUED)

A very active petroleum system in the basin is provided by very rich Upper Cretaceous 'La Luna' source rocks sourcing oil directly into the overlying porous sandstones of the Eocene La Paz-Esmeraldas Formation

A number of exploration wells have been drilled in the block over the past 40 years, based on old 2D seismic data with all of these wells obtaining excellent oil and gas shows One of the wells, La Tigra 10, has produced over 30,000 barrels of oil during intermittent testing and production since its discovery in 1969 and is currently shut-in This well is located on one of the leads to be detailed in the new 3D survey Previous exploration in this structurally complex block has been handicapped by the fact that the old 2D seismic technology was not precise enough to delineate valid drilling targets Modern 3D seismic technology coupled with new structural modelling concepts is now being used in the basin and the discovery ratio has significantly improved Phase 1 of the work programme in the Fénix block requires the acquisition of 100 sq km of 3D seismic data

A number of leads were delineated by the previous operator using the old 2D seismic and some of these leads will be targeted with our new 3D seismic survey The Company is confident that a number of high potential targets will be delineated during the 3D survey, the best of which will be drilled in Phase 2

In terms of economics, nearby production and pipeline infrastructure is among the best in Colombia and major existing pipelines connect this area to the Caribbean coast and to the large refinery complex at Barrancabermaja about 60km to the south

The Company won this contract against spirited opposition by other competitors and considers it to be an outstanding future opportunity to establish significant hydrocarbon reserves

PARAGUAY

SAN PEDRO:

- Equity Chaco holds 100% of this block
- Area 800,000 hectares (8,000 sq km)
- Effective Contract Date 4 August 2004
- Basin Paraná
- Work Programme

  A Gathering and reprocessing of historical existing data
  B Environmental Licensing
  C 150 Kilometres of new seismic
  D 1 Exploration well

This large permit is located in the northern part of that portion of the Paraná Basin that extends from Brazil into the southeast part of Paraguay

On the Brazilian side of the basin a number of discoveries of gas have been made in reservoirs of Permo-Carboniferous age These reservoirs extend into Paraguay and are considered to be sourced by intraformational shales in the Carboniferous Other possible sources occur in marine shales of Devonian and Silurian age

Exploration in the basin is complicated by the presence of numerous igneous intrusions in the form of sills which hamper seismic definition of structure On the other hand, on the Brazilian side the sills in some cases provide effective seals for hydrocarbon traps, with the Barra Bonita gas field in Brazil being one example

The Company was delayed in its efforts to obtain the tapes of the existing seismic data, copies of which were not left in Paraguay by the previous operators but tapes were finally located and interpretation is now under way

Two wells, Asuncion #1 and #2, were drilled in the block in 1981 and encountered good reservoir quality sandstones with shows in the Lower Palaeozoic section Both wells were plugged and abandoned after drilling into thick igneous sills

BUSINESS REVIEW (CONTINUED)

The existing San Pedro seismic has been re-processed in Colombia and is now being re-interpreted in Perth, Australia This interpretation is due to be completed in mid May and will allow the planning of a new seismic survey designed to locate potential structural traps

ALTO PARANÁ (formerly Canindeyu)

- Equity Chaco holds 100% of this block
- Area 1,798,000 hectares (1,798 sq km)
- Effective Contract Date 31 October 2006
- Basin Paraná
- Work Programme

    A Gathering and reprocessing of historical existing data
    B Environmental Licensing
    C Gravimetric
    D 100 km of new seismic
    E One Exploration well per year, from year 2 of the exploration phase up to year four, or 15,000 metres

This large permit is located in the eastern part of that portion of the Paraná Basin which extends into Paraguay from southern Brazil

The geology is almost identical to the San Pedro Block (see above) except that the overall section will be thicker here than in the San Pedro Block

No wells have previously been drilled in the block but in the early 1990s three wells were drilled just south of the southern border of the block These were Mallorquin #1 by Texaco and Ines #1 and #2 by Guarani Exploration Each of these wells obtained good oil shows in reservoir quality quartz sands of Permian age but all were plugged and abandoned without testing Subsequent mapping throws some doubt on the structural integrity of the three targets

The Company has tracked down the location of the tapes of the existing seismic survey and is currently negotiating with the previous block holder to obtain copies Once the tape copies are obtained the seismic will be re-processed and interpreted and a new seismic survey planned with the objective of locating valid structural targets for later drilling

Curupayty Permit

This block is held as an Exploration & Production permit After initial studies, some parts of the Curupayty block were relinquished in line with contractual terms, and the block now extends over approximately 800,000 hectares (8,000 sq km) of the Curupayty basin located in the very north of Paraguay, close to the border with Bolivia

The existing data in the block was reprocessed and interpreted during 2006 The exploration potential of this area is currently being evaluated with the objective of high-grading our exploration activities in Paraguay

Competent Person

Technical information in this Annual Report has been reviewed by Dr John Wardle, the Company's Chief Executive Officer Dr Wardle holds a B Sc in Mining Engineering from the University of Nottingham and a Ph D in Rock Mechanics and Geophysics from the University of Wales He is an experienced drilling engineer, having worked with BP, and has held a number of senior management positions with oil exploration companies

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CHACO RESOURCES PLC

We have audited the group and parent company financial statements (the "financial statements") of Chaco Resources plc for the year ended 31 March 2007 which comprise the consolidated profit and loss account, the Group and Company balance sheets, the consolidated statement of cash flows and notes 1 to 22 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, whether the financial statements are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements We also report to you if, in our opinion, 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 This other information comprises only the Report from the Chairman, the Directors' Report, the Business Review and the Supplementary Information 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 judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

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

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CHACO RESOURCES PLC (CONTINUED)

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 March 2007 and of the Group's loss for the year then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the financial statements for the year ended 31 March 2007

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Leicester
3 MAY 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

	Notes	**31 March 2007 £000**	31 March 2006 £000
Turnover	2	**-**	-
Administrative expenses		**(1,354)**	(939)
Exceptional item – provision for impairment of investment in JANEs and intangibles	2	**(4,295)**	-
Operating loss	2	**(5,649)**	(939)
Net interest receivable and similar income	3	**222**	128
Loss on ordinary activities before taxation		**(5,427)**	(811)
Tax on loss on ordinary activities	6	**-**	-
Loss for the financial year	16	**(5,427)**	(811)
Loss per share – basic	8	**(1.02)p**	(0 18)p
Loss per share – fully diluted	8	**(1.02)p**	(0 18)p

All of the activities of the Group are classed as continuing

The Group has no recognised gains or losses other than the results for the year as set out above

The accompanying accounting policies and notes 1 to 22 form an integral part of these financial statements

BALANCE SHEETS AS AT 31 MARCH 2007

	Notes	**Group 31 March 2007 £000**	Group 31 March 2006 £000	**Company 31 March 2007 £000**	Company 31 March 2006 £000
FIXED ASSETS					
Intangible assets	9	**738**	739	**70**	155
Tangible assets	10	**13**	3	**-**	-
Investments	11	**5,568**	604	**600**	1,193
		6,319	1,346	**670**	1,348
CURRENT ASSETS					
Debtors	12	**242**	22	**6,475**	168
Cash at bank and in hand	13	**2,103**	5,565	**1,924**	5,560
		2,345	5,587	**8,399**	5,728
Creditors amounts falling due within one year	14	**(1,525)**	(140)	**(1,344)**	(140)
NET CURRENT ASSETS		**820**	5,447	**7,055**	5,588
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,139**	6,793	**7,725**	6,936
CAPITAL AND RESERVES					
Called up share capital	15	**555**	507	**555**	507
Shares to be issued	16	**167**	167	**167**	167
Other reserves	16	**13,616**	7,891	**13,606**	7,888
Profit and loss account	16	**(7,199)**	(1,772)	**(6,603)**	(1,626)
Total Equity Shareholders' Funds	17	**7,139**	6,793	**7,725**	6,936

The financial statements were approved by the Board of Directors on 3 May 2007

N HARRISON
DIRECTOR

The accompanying accounting policies and notes 1 to 22 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2007

	Notes	31 March 2007 £000	31 March 2006 £000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	18	(130)	(780)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received and similar income		222	128
TAXATION		-	-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets		(11)	(1)
Purchase of intangible fixed assets		(207)	(47)
Acquisition of investments		(9,079)	(604)
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(9,297)	(652)
NET CASH OUTFLOW BEFORE FINANCING		(9,205)	(1,304)
FINANCING			
Issue of shares	15	6,074	6,581
Expenses and commission paid in connection with share issues		(331)	(354)
NET CASH INFLOW FROM FINANCING		5,743	6,227
(DECREASE)/INCREASE IN CASH	18	(3,462)	4,923

The accompanying accounting policies and notes 1 to 22 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, up to and including Financial Reporting Standard ('FRS') 28, where applicable The principal accounting policies represent the most appropriate in accordance with FRS 18 The group's accounting policies are unchanged compared with the prior year, apart from the adoption of FRS20 – Share based payments

Basis of preparation
The financial statements for the year ended 31 March 2007 represent the results and assets of the Company and its subsidiary undertakings Exploration and appraisal costs are accounted for using the successful efforts method in accordance with the Statement of Recommended Practice on Accounting for Oil and Gas Exploration, Development, Production and De-commissioning Activities

Going concern
After making appropriate enquiries, in the light of the planned fund raising, and in view of the Group's ability to manage its cash outflows proactively, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason, they have adopted the going concern basis in preparing these Group's financial statements

Basis of consolidation
The Group financial statements consolidate those of the Company and of its subsidiary undertakings (see Note 11) drawn up to 31 March 2007 Acquisitions of subsidiaries are dealt with by the acquisition method of accounting

Goodwill
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 is amortised on a straight line basis over its estimated useful economic life

Exploration and appraisal expenditure
All pre-licence, licence acquisition, exploration and appraisal costs are initially capitalised as intangible assets in cost centres by well, field or exploration area, as appropriate, pending determination of commercial reserves These costs are then written off, unless commercial reserves have been established or the determination process has not been completed Following the discovery of a commercially viable well, the attributable costs are transferred to tangible fixed assets, in single field cost centres

Intangible assets
Other intangible assets are included at cost, and amortised on a straight-line basis over their useful economic life

Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment

Depreciation is calculated to write down the cost of tangible fixed assets by equal annual instalments over their estimated useful economic lives The periods generally applicable are

Office equipment	10 years
Computer equipment	4 years

Deferred taxation
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax with the following exceptions

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that they will be recovered

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Investments
All non-current investments are carried at the lower of cost and net realisable value, less any provision for diminution in value The Company treats as an investment any "Joint Arrangement which is not an Entity" (JANE) whereby commitments have been underwritten by deposit in Escrow accounts and such accounts are regarded as fiduciary (in the event of a winding up, such funds would not form part of the Company's assets) Where this is not the case, any Escrow accounts are classified as cash The Company believes that its activities in Colombia should be construed as JANEs, and has accounted for these interests in accordance with the SORP

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate 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 re-translation of the opening net investments in the foreign subsidiaries are taken directly to reserves All other exchange differences are dealt with through the profit and loss account

Share based payment
All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 April 2006 are recognised in the financial statements 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) See further note 15 for the disclosures required by FRS20
All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to "other reserves"

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

2. TURNOVER AND OPERATING LOSS

Turnover and operating loss relate entirely to the Group's principal continuing area of activity, being investment in mineral resource projects

	31 March 2007 £000	31 March 2006 £000
Operating loss is stated after charging		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**26**	25
Fees payable to the Company's auditors and its associates for other services		
for the audit of the Company's subsidiaries, pursuant to legislation	**2**	-
for tax services	**18**	8
for all other services	**4**	5
Depreciation and amortisation		
Goodwill on acquisition – amortisation	**29**	29
Tangible assets – depreciation	**1**	-
Exchange differences	**103**	(82)
Exceptional items.		
Other intangible assets – impairment	**179**	-
Provision for impairment of investment in JANEs	**4,116**	-
Exceptional items – Total	**4,295**	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. TURNOVER AND OPERATING LOSS

Loss for the financial period

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's loss for the year was £4,977,000 (2006 £701,000)

Segmental reporting

The analysis of loss before taxation for the year and net assets by geographical segment is as follows

Loss before taxation UK – £5,006,000 (2006 £701,000), Colombia - £93,000 (2006 nil) and Paraguay – £328,000 (2006 £110,000)

Net assets UK – £7,645,000 (2006 £6,894,000), including goodwill of £508,000 (2006 £537,000) and other intangible assets of £70,000 (2006 £155,000), Colombia – net liabilities of £85,000 (2006 nil) and Paraguay net liabilities of £421,000 (2006 net liabilities of £101,000)

3. NET INTEREST RECEIVABLE AND SIMILAR INCOME

	31 March 2007	31 March 2006
	£000	£000
Interest income receivable	333	46
Foreign exchange (losses) / gains – net	(103)	82
Interest payable	(8)	-
	222	128

4. INFORMATION REGARDING DIRECTORS

	31 March 2007	31 March 2006
	£000	£000
Total emoluments	342	268
Aggregate gains made on the exercise of share options	407	-
	749	268

	31 March 2007	31 March 2006
	£000	£000
Highest paid director	96	93
Aggregate gains made on the exercise of share options	199	-
	295	93

The aggregate gains made for all Directors on the exercise of share options are calculated as the difference between the option price and the mid-market price on the dates that the options were exercised (14p and 12 5p, respectively) No options were exercised in the previous year No Director participates in a money purchase pension scheme

The emoluments of Mr Pither were paid to Surrey Management Services Limited, a Company in which Mr Pither has a financial interest.

Certain of the emoluments of Mr Groák were paid to Marker Management Services Limited, a Company in which Mr Groák has a financial interest

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. INFORMATION REGARDING DIRECTORS (CONTINUED)

The emoluments of Mr Morris were paid to Forman Pty Ltd, a Company in which Mr Morris has a financial interest

The emoluments of Dr Wardle were paid to Tracarta Ltd, a Company in which Dr Wardle has a financial interest Prior to Dr Wardle's appointment as a Director of the Company, amounts totalling £35,101 were paid to Tracarta Ltd as fees for the services of Dr Wardle as Resident Manager in Bogotá

Prior to Mr van den Broek's appointment as a Director of the Company, consulting fees totalling £10,787 were paid to DvdB Consultancies Limited, a Company in which Mr van den Broek has a financial interest

On 5 February 2007, 1,000,000 share options were granted to Nicola Brookes at an exercise price of 11 1p per share These options will expire on 30 November 2007

5. EMPLOYEES

	31 March 2007	31 March 2006
	Number	Number
The average number of employees of the Group (including Directors) during the year was		
Australia	**3**	3
United Kingdom	**3**	3
United States of America	**-**	1
Rest of the World	**3**	3
	9	10

6. TAX ON LOSS ON ORDINARY ACTIVITIES

No tax arises on the loss for the year (2006 £nil)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained as follows

	31 March 2007	31 March 2006
	£000	£000
Loss on ordinary activities before tax	**(5,427)**	(811)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	**(1,628)**	(243)
Effect of		
Expenses not deductible for tax purposes	**49**	24
Exceptional item – provision for impairment of investment in JANEs and intangibles	**1,288**	-
Tax relief on exercise of share options	**(114)**	-
Carry forward of unutilised tax losses	**405**	219
Current tax charge for the year	**-**	-

Unrelieved tax losses remain available to offset against future taxable profits These losses have not been recognised as deferred tax assets within the financial statements as they do not meet the conditions required in accordance with FRS 19 Losses carried forward in the UK total £3,072,000 – tax effect is £922,000 (2006 £1,876,000 – tax effect is £563,000) Losses carried forward in Paraguay since acquisition total £222,000 – tax effect is £67,000 (2006 £106,000 – tax effect is £32,000) Losses carried forward in Colombia total £70,000 – tax effect is £21,000 (2006 £nil) In addition, there are capital losses in the UK carried forward at 31 March 2007 of £30,272,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. DIVIDENDS

The Directors recommend that no final dividend be declared or paid for the year ended 31 March 2007 (2006 £nil)

8. LOSS PER SHARE

The calculation of basic loss per share is based on a loss for the period of £5,427,000 (2006 £811,000) and on 532,954,006 (2006 440,153,140) ordinary shares), being the weighted average number of ordinary shares in issue during the year

During the year under review, the company has recorded an exceptional item, being the provision for impairment of investment in JANEs and intangibles of £4,295,000 The net pre-tax profit before this exceptional item ("adjusted loss") is £1,132,000 The adjusted loss per share, based on 532,954,006 ordinary shares, being the weighted average number of ordinary shares in issue during the year, is 0 21p (2006 0 18p)

The loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share are identical to those used for the basic loss per share Similarly, the adjusted loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purposes of calculating the diluted adjusted loss per share are identical to those used for the adjusted loss per share This is because the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive under the terms of FRS 22

9. INTANGIBLE ASSETS GROUP	**Goodwill on acquisition**	**Other intangible assets**	**Total**
	£000	**£000**	**£000**
Cost			
As at 1 April 2006	578	202	780
Additions	-	207	207
At 31 March 2007	578	409	987
Amortisation			
At 1 April 2006	41	-	41
Charge for the year	29	179	208
At 31 March 2007	70	179	249
Net book amount at 31 March 2007	508	230	738
Net book amount at 31 March 2006	537	202	739

Additions to other intangible assets include £125,000 in respect of historical seismic data pertaining to various locations in Paraguay The balance of £82,000 represents the money paid to the Paraguayan Government under Legislative Law Number 779 in respect of securing the continuing exploration of the Curupayty and San Pedro regions in Paraguay

The Company has reviewed the carrying cost of its investments in intangibles in Paraguay As a result of this assessment, £179,000 of intangibles have been written off to reflect the carrying value of assets whose recoverability is considered doubtful Goodwill arising on consolidation as a result of acquisitions is being amortised over its useful economic life, which has been estimated by the Directors as 20 years

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. INTANGIBLE ASSETS (CONTINUED)
COMPANY

	Other intangible assets £000
Cost	
At 1 April 2006	155
Additions	75
Transfers to subsidiaries	(160)
At 31 March 2007	70
Amortisation	
At 1 April 2006	-
Charge for the year	-
At 31 March 2007	-
Net book amount at 31 March 2007	70
Net book amount at 31 March 2006	155

During the year, intangible assets relating to exploitation of the Group's interests in Paraguay were transferred to the Company's subsidiaries, Amerisur S.A and Bohemia S.A , at cost

10. TANGIBLE ASSETS
GROUP

	Office and computer equipment £000
Cost	
At 1 April 2006	3
Additions	11
At 31 March 2007	14
Depreciation	
At 1 April 2006	-
Charge for the year	1
At 31 March 2007	1
Net book value at 31 March 2007	13
Net book value at 31 March 2006	3

11. INVESTMENTS
GROUP

	JANE £000
Cost	
At 1 April 2006	604
Additions in year	9,079
At 31 March 2007	9,683
Impairment	
At 1 April 2006	-
Provision in year	4,115
At 31 March 2007	4,115
Net book value at 31 March 2007	5,568
Net book value at 31 March 2006	604

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. INVESTMENTS (CONTINUED)
COMPANY

	Investment in subsidiary undertakings £000	JANE £000	TOTAL £000
Cost			
At 1 April 2006	589	604	1,193
Additions in year	11	7,781	7,792
Transfers in year	-	(4,270)	(4,270)
At 31 March 2007	600	4,115	4,715
Impairment			
At 1 April 2006	-	-	-
Provision in year	-	4,115	4,115
At 31 March 2007	-	4,115	4,115
Net book value at 31 March 2007	600	-	600
Net book value at 31 March 2006	589	604	1,193

At 31 March 2006, the Company had deposited US$7,400,000 (£4,270,000) with Citibank N.A These funds were provided for the first phase of the exploration work programme of the Platanillo block in the Putumayo basin of South Colombia At 31 March 2006, these funds were held in an Escrow account and since they were under the control of the Company were disclosed as cash Since 31 March 2006, this Escrow account is no longer under the sole control of the Company and in accordance with the Group's accounting policy these funds have been reclassified as a "Joint Investment which is not an Entity" ("JANE") The Group is earning an interest of 25% in the net profits of that arrangement The Company has now transferred ownership of this investment to its subsidiary Chaco Exploración Colombia Limited "Chaco (Colombia)"

During the year under review, the Company placed US$4,045,000 (£2,175,000) in an Escrow Account as a fiduciary deposit for the Company's commitments in respect of the Primavera block in the Llanos basin of Eastern Colombia As the Escrow account is not under the sole control of the Company, this Escrow account has been treated as a JANE The Group is committed to fund 100% of the year 1 programme and is earning an interest of 55% in the net profits of that arrangement On 5 April 2007, the Company announced that it had completed drilling on the Cachapa well, did not encounter commercial quantities of hydrocarbons and that the well has been plugged & abandoned Accordingly, the investment in Primavera has been written off The Company has now transferred ownership of this investment to its subsidiary Chaco (Colombia)

On 18 January 2007, the Company announced that the Operators, Expet S A and Consultoria Colombiana S.A , had advised that the new seismic data did not indicate the presence of structures large enough to be commercially viable Consequently the Company had decided to withdraw from the next stage of exploration Accordingly the investment in Puerto Lopez Oeste has been written off in full The Company has now transferred ownership of this investment to its subsidiary Chaco (Colombia)

During the year under review, the Colombian branch of the Company's subsidiary, (Chaco (Colombia)), placed US$2,495,000 (£1,297,000) in an Escrow Account as a fiduciary deposit for the Group's commitments in respect of the Fénix block in the Magdalena basin of Central Colombia As the Escrow account is not under the sole control of the Group, this Escrow account has been treated as a JANE The Group is committed to fund 100% of the year 1 programme and is earning an interest of 48 75% in the net profits of that arrangement

In addition Chaco (Colombia) has entered into a letter of credit securing the performance of its obligations under an Exploration & Production contract entered into on 12 March 2007 with ANH (The National Hydrocarbons Agency) This letter of credit is for the amount of $249,500 (£127,000) and is secured by funds held at Banco de Crédito Helm Financial Services

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. INVESTMENTS (CONTINUED)
COMPANY

Details of the investments in which the Company held 90% or more of the nominal value of any class of share capital during the period are as follows

Subsidiary undertakings

Name of Subsidiary	Percentage Voting Rights and Shares Held	Country of Incorporation	Business
Amerisur S A	100	Paraguay	Mineral resource hydrocarbon E&P permit applications
Bohemia S A	100	Paraguay	Mineral resource hydrocarbon E&P permit applications
Chaco Exploración (Colombia) Limited	100	British Virgin Islands	Intermediate Holding Company
Sub-subsidiary undertaking			
E-Plus S A	100	Paraguay	Dormant

All Paraguayan subsidiaries draw up accounts to 31 December each year in line with local law For the purposes of consolidation into these Group accounts, management accounts to 31 March 2007 have been used

Chaco Exploración (Colombia) is used to hold the interests of the Group in Colombia In addition, a Colombian branch office has been set up in Bogotá This branch is required to draw up accounts to 31 December each year in line with local law For the purposes of consolidation into these Group accounts, management accounts to 31 March 2007 have been used

12. DEBTORS	Group 31 March 2007 £000	Company 31 March 2007 £000	Group 31 March 2006 £000	Company 31 March 2006 £000
Amounts due from subsidiary undertakings	-	6,241	-	156
Prepayments and sundry debtors	242	234	22	12
	242	6,475	22	168

13. CASH	Group 31 March 2007 £000	Company 31 March 2007 £000	Group 31 March 2006 £000	Company 31 March 2006 £000
Cash in bank or in hand	2,103	1,924	1,295	1,290
Escrow accounts	-	-	4,270	4,270
	2,103	1,924	5,565	5,560

At 31 March 2006, the Company had deposited US$7,400,000 (£4,270,000) with Citibank N.A These funds were provided for the first phase of the exploration of the work programme of the Platanillo block in the Putumayo basin of South Colombia At 31 March 2006, these funds were held in an Escrow account and were still in the control of the Company Since 31 March 2006, this Escrow account is no longer under the sole control of the Company and in accordance with the Group's accounting policy these funds have been reclassified as a "Joint Investment which is not an Entity" ("JANE")

Cash in bank or in hand includes £148,000 (2006 £nil) which is subject to a charge in favour of a third party

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. CREDITORS	Group 31 March 2007 £000	Company 31 March 2007 £000	Group 31 March 2006 £000	Company 31 March 2006 £000
Amounts fallıng due wıthın one year				
Trade credıtors	75	20	31	31
Emoluments owed to Dırectors	27	27	22	22
Other credıtors and accruals	1,423	1,297	87	87
	1,525	1,344	140	140

15. SHARE CAPITAL	Authorised		Allotted, called up and fully paid	
	Number	£000	Number	£000
Group and Company				
Ordınary shares of 0 1 pence each				
At 31 March 2006	700,000,000	700	507,467,887	507
Ordınary shares of 0 1 pence each				
At 31 March 2007	700,000,000	700	555,434,554	555

Shares to be issued

A balance of 9,107,468 shares are to be ıssued on ratıfıcatıon by the Paraguayan government of Bohemıa's concessıon contract (2006 9,107,468 shares), represented by a reserve of £167,000 (2006 £167,000) These shares wıll be ıssued ın two stages 10% (910,747) wıll be ıssued on executıon of the concessıon contract for exploratıon and subsequent exploıtatıon and the balance of 90% (8,196,721) on ratıfıcatıon of the concessıon contract by the Paraguayan government

Shares issued

Durıng the year the followıng shares were ıssued

- On 18 May 2006 the Company raısed £4,000,000 (before expenses) through the placıng of 26,666,667 new ordınary shares at 15p per share The placıng was made to ınstıtutıonal ınvestors and to provıde the Company wıth further workıng capıtal for ıts ongoıng operatıons ın South Amerıca
- On 5 October 2006 1,300,000 new ordınary shares were ıssued a result of Mr Pıther exercısıng 1,000,000 optıons and another optıon holder exercısıng 300,000 optıons over unıssued shares, both at an exercıse prıce of 2 16p per share
- On 27 February 2007 the Company raısed £1,900,000 (before expenses) through the placıng of 16,500,000 new ordınary shares at 11 5p per share The placıng was made to ınstıtutıonal ınvestors ın order to fınance further ınvestment ın exploratıon projects and to provıde the Company wıth further workıng capıtal for ıts ongoıng operatıons ın South Amerıca
- On 5 March 2007 3,500,000 new ordınary shares were ıssued as a result of two optıon holders exercısıng theır optıons over unıssued shares Mr Stephens exercısed hıs optıons over 1 5 mıllıon shares at 3 0 pence per share and 1 mıllıon shares at 6 86 pence per share Mr Jendry exercısed hıs optıons over 1 mıllıon shares at 3 5 pence per share

Share based payments

On 5 February 2007, the Company granted optıons over 1,000,000 ordınary shares exercısable at 11 1p durıng the perıod to 30 November 2007 The faır value of these optıons has been calculated as £22,500 usıng a Bınomıal model The calculatıon assumes a year-end share prıce of 11 5p, an exercıse prıce of 11 1p, share prıce volatılıty of 64% and nıl dıvıdend yıeld Volatılıty has been calculated by reference to hıstorıcal volatılıty of the Company's share prıce

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. SHARE CAPITAL (CONTINUED)

Options

At the balance sheet date and at the date of this report, the following unlisted options are outstanding

- 300,000 options exercisable at 2 2p on or before 30 September 2007
- 1,000,000 options exercisable at 2 16p on or before 30 October 2007
- 1,000,000 options exercisable at 2 16p on or before 2 November 2007
- 1,000,000 options exercisable at 11 1p on or before 30 November 2007
- 2,000,000 options exercisable at 2 16p on or before 17 December 2009
- 500,000 options exercisable at 3p on or before 4 March 2010
- 1,000,000 options exercisable at 3 5p on or before 26 April 2010

16. RESERVES

GROUP	Shares to be issued £000	Share premium £000	Currency translation reserve £000	Other reserves £000	Profit and loss account £000
At 1 April 2006	167	7,888	3	-	(1,772)
Shares issued in the year (note 15)	-	6,026	-	-	-
Less costs of issuing shares	-	(331)	-	-	-
Share based payments	-	-	-	23	-
Retained loss for the year	-	-	7	-	(5,427)
At 31 March 2007	167	13,583	10	23	(7,199)

COMPANY	Shares to be issued £000	Share premium £000	Other reserves £000	Profit and loss account £000
At 1 April 2006	167	7,888	-	(1,626)
Shares issued in the year (note 15)	-	6,026	-	-
Less costs of issuing shares	-	(331)	-	-
Share based payments	-	-	23	-
Retained loss for the year	-	-	-	(4,977)
At 31 March 2007	167	13,583	23	(6,603)

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

GROUP	31 March 2007 £000	31 March 2006 £000
Loss for the financial year	(5,427)	(811)
Currency translation reserve	7	3
Share based payments	23	-
Dividends and other appropriations	-	-
	(5,397)	(808)
Issue of shares	5,743	6,297
Net increase in shareholders' funds	346	5,489
Shareholders' funds at 31 March 2006	6,793	1,304
Shareholders' funds at 31 March 2007	7,139	6,793

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 NOTES TO THE STATEMENT OF CASH FLOWS

	31 March 2007 £000	31 March 2006 £000
(a) Reconciliation of operating loss to net cash outflow from operating activities		
Operating loss	(5,649)	(939)
Exceptional item – impairment provision for investment in JANEs & intangible assets	4,295	-
Goodwill amortisation & depreciation	30	29
Provision for share based payments	23	-
(Increase)/decrease in debtors	(220)	34
Increase in creditors	1,391	96
Net cash outflow from operating activities	(130)	(780)
(b) Reconciliation of net cash flow to movement in net funds		
Increase in cash	(3,462)	4,923
Opening net funds	5,565	642
Closing net funds	2,103	5,565

(c) Analysis of net cash

	At 31 March 2006 £000	Cash Flow £000	At 31 March 2007 £000
Cash at bank and in hand	1,295	808	2,103
Cash in escrow	4,270	(4,270)	-
Total net cash	5,565	(3,462)	2,103

19. FINANCIAL INSTRUMENTS

The following disclosures are made in accordance with FRS 13

(a) Interest rates
All cash deposits at the year end were earning interest at floating rates of interest

(b) Currency risk
The Group's monetary assets and liabilities were held in a variety of currencies as set out below

	US$	AUS$	Guarani (Paraguay)	Pesos (Colombia)	GBP
	£000	£000	£000	£000	£000
Monetary assets (cash)	1,115	29	7	172	780
Monetary assets (debtors)	214	-	3	-	25
Monetary liabilities (creditors & accruals)	1,020	-	41	140	323

(c) Fair value
In the opinion of the Directors, there are no financial assets or liabilities that require restating at fair value, and therefore all such items are held at book value which is deemed to approximate to fair value

20. CONTINGENT LIABILITIES

In addition to the funds placed on deposit at 31 March 2007 in respect of the Group's investment in Platanillo (JANE), the Group has a liability to fund additional expenditure This is currently estimated at US$3 65m (£1 86m)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. RELATED PARTY TRANSACTIONS

The Company is exempt from disclosing transactions with subsidiaries in which it held an interest of 90% or more during the year

On 27 February 2007, Dr John Wardle was appointed a Director of the Company Dr Wardle is also a partner in Expet S.A , a firm with which the Group has a joint venture agreement Dr Wardle received £11,998 during the year as his share of the fees due under this agreement

Furthermore, under the terms of this agreement, Expet is entitled to participate in a free carried interest on exploration contracts introduced by them Under a second agreement, Expet is entitled to 15% of the net profits of the Group derived from the Platanillo contract

Expet also has an interest in the Primavera contract (30%) and Puerto Lopez Oeste (34%) and is the Operator of the latter It has an interest of 16 25% in Fénix

During the year the Company raised short term bridging finance which was repaid from the proceeds of the share issue in May 2006 These funds were required to secure the Primavera contract, the Company being given approximately two working days notice to secure the additional funding Two of these loans were from related parties US$1,500,000 was borrowed from Goldcrest Corporation Pty Ltd, a company in which Mr Morris has an interest An arrangement fee of £40,000 was paid to secure this loan together with interest of £6,332 In addition the Company borrowed £100,000 from St Helen's Private Equity, a company in which Mr Pither has an interest An arrangement fee of £5,000 was paid to secure this loan together with interest of less than £1,000

22. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- **Cachapa #1 well**

  On 5 April 2007 the Company announced that drilling had completed at the Cachapa #1 well in the Primavera block and had not encountered economic quantities of hydrocarbons The well has been plugged and abandoned

- **Sayona #1 well**

  On 23 April 2007 the Company announced that drilling had completed at the Sayona #1 well in the Primavera block and had not encountered economic quantities of hydrocarbons The well has been plugged and abandoned

- **Fénix farm-in agreement**

  On 25 April 2007 the Company announced that it had signed a farm-in agreement with Fénix Oil and Gas S A

- **Changes in Board Structure**

  On 17 April 2007 Messrs Jon Pither, Martin Groák, Doug Jendry and Ms Nicola Brookes resigned as Directors of the Company On the same day Mr Nick Harrison was appointed as Finance Director

  On 2 May 2007 Mr John Morris resigned as a Non Executive Director of the Company

  On 3 May 2007 Mr Dick van den Broek was appointed a Director of the Company

SUPPLEMENTARY INFORMATION

VOTING RIGHTS

No restrictions

On a show of hands every member present in person or by proxy will have one vote and upon a poll each share shall have one vote

STOCK EXCHANGE LISTING

Chaco Resources plc shares are listed on the AIM market of the London Stock Exchange The Company was admitted to AIM on 20 November 2002 Symbol – CHP

NOMINATED ADVISOR AND BROKER

Blue Oar Securities plc is the Company's Nominated Advisor and Broker

WEBSITE

The Company has a website www.chacoplc com on which statutory information, press releases and background information on the Company and its operations can be found

SHARE PRICE

Each day's closing share price is quoted the following day in the Financial Times and the Times newspapers The current share price is shown in the Investor Information section of the Company's website (subject to a 15 minute delay)

Shares may be bought or sold through a stockbroker who is a member of the London Stock Exchange

HISTORICAL SHARE PRICES

Period	Spread	Mid price
As at 31 March 2006	13 75p – 14 00p	13 88p
As at 31 March 2007	11 25p – 11 75p	11 5p