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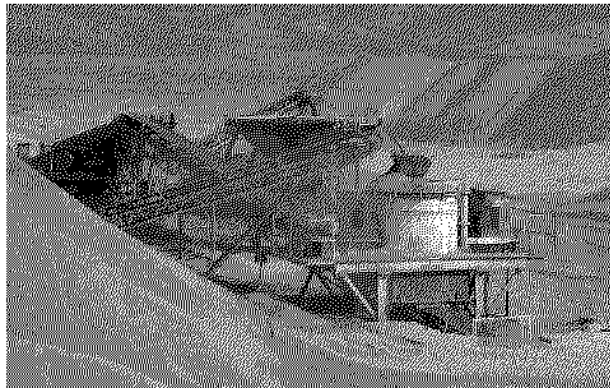
8 August 2006

Company Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

SANTA BARBARA JULY PRODUCTION UPDATE

During July 2006 the junior plant operated for 14 days. 39,000 tonnes of material was processed. There was no overburden to remove. The average grade of the ore was 23.2% Fe (elemental Iron) compared to the JORC computation of 12.2%. The Board is delighted with these results. Approximately 7,500 tonnes of 63.5% material has been produced giving us a ratio of 5.3 to 1. The cost of production at this ratio is US\$12 per tonne.

In the first line of separation and crushing approximately 7% of the ore was lump greater than 70mm in size and it was separated out and stockpiled. This will be processed at a later date.



Secondary crusher in foreground reducing material to 6mm fines and stockpile of fines from first pass.

After primary crushing of material less than 70mm down to 25mm, the ore was separated by magnetic belt. About 70% is waste and 30% has been directed to the secondary crusher. We have had interest from road builders to acquire this sub 25mm size material.

25% of the 30% iron rich material is less than 6mm in size and does not need to be processed by the secondary crusher which is a substantial saving for us.

The 6mm crushed material (of which 70% is less than 3mm) is then processed by three high speed drums operating at 25rpm, 35rpm and 95 rpm. The first waste from each of these high speed drums has less than 10% Fe in it which was a great result. We are continuing to modify the settings of the plant to maximise the Fe recovery.



63.7% iron ore fines in the fore ground and waste piles from the high speed magnetic drums

Testing of the final product has shown an average of 63.7% Fe, which is above our final product specification. The ore has very low sulphur (<0.01%) and low phosphorous (<0.08%) which is attractive to the markets.

The crusher and magnetic conveyor section of the plant is targeted to operate for 14 hours per day in August and the high speed separators 21 hours per day, six days per week.

Sales

While not material, additional sales of "waste" product have been made receiving revenues of US\$250,000. We expect this to continue on an ongoing basis.

A Brazilian representative from a Japanese trading house attended the plant operations and was suitably impressed with the quality and size of the operation.

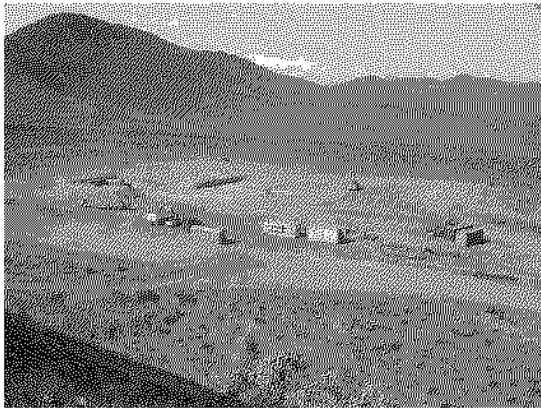
We are in negotiation with a number of parties to finalise longer term contracts, although demand is strong for spot magnetite iron ore. More details will be provided when contracts have been signed.

Shipping

We believe we are getting closer to securing another port facility at Caldera that can load 75,000 tonne panamax ships which will further reduce the freight cost to Europe and China making our product more competitive on a CNF basis.

Twin Processing Plant

Good progress has been made with the equipment prepared in Santiago. The site has been levelled and some concrete poured. The rest of the high speed drums are being transported to the site and should arrive on 15 August 2006 for installation.



Plant site showing foundations to the left
Standing on 1970 stockpile foreground left



Permanent Office and laboratory site

Office Site

The office site has been prepared for installation of the insulated offices (some already installed) and the parking area sealed. Eight staff for the laboratory have been hired and are implementing the quality control procedures for iron ore testing.

The board would like to congratulate the staff of Minera Santa Barbara and Besalco on their fine efforts to establish our operation.

Yours sincerely,

A handwritten signature in cursive script, reading "Phillip Thomas".

Phillip Thomas

Managing Director

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