



**ANNUAL REPORT
AND FINANCIAL
STATEMENTS 2010**

Ncondezi is a coal exploration and development company with four coal exploration licences in the Tete Province in north west Mozambique.

Ncondezi Coal Company Limited (“Ncondezi”, the “Company” or the “Group”), a BVI registered publicly listed company on the AIM market of the London Stock Exchange (Ticker: NCCL), holds 100% of its licences and is committed to completing the necessary exploration and development work required to ultimately develop a mine.

Shareholder Structure

45%
Strata Ltd

49%
Free Float

6%
Management
EBT

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HIGHLIGHTS



120M

Ncondezi is an AIM listed company on the London Stock Exchange with 120m shares in issue



NCONDEZI PROJECT

Maiden JORC coal resource of 1.8 billion tonnes ("bt") classified on licence 804L and 805L (the "Ncondezi Project") in February 2010



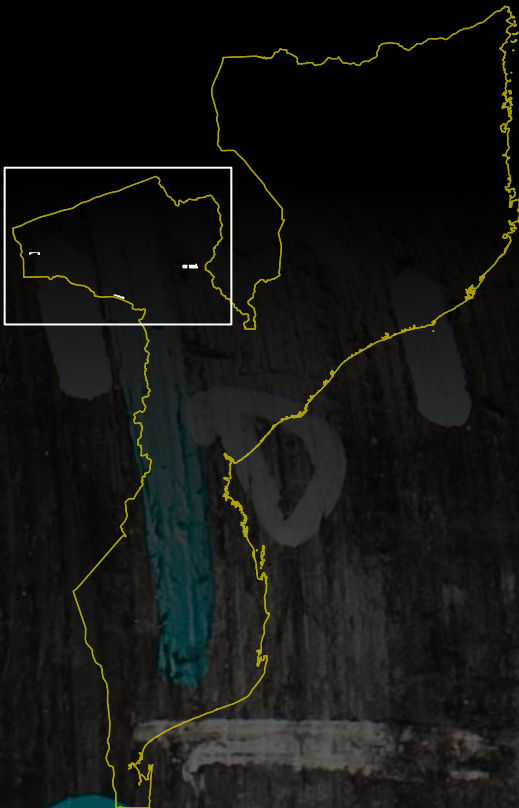
MID 2012

Targeted date for completion of the necessary additional drilling and associated coal quality testwork to complete a Definitive Feasibility Study ("DFS") on the Ncondezi Project



US\$52M

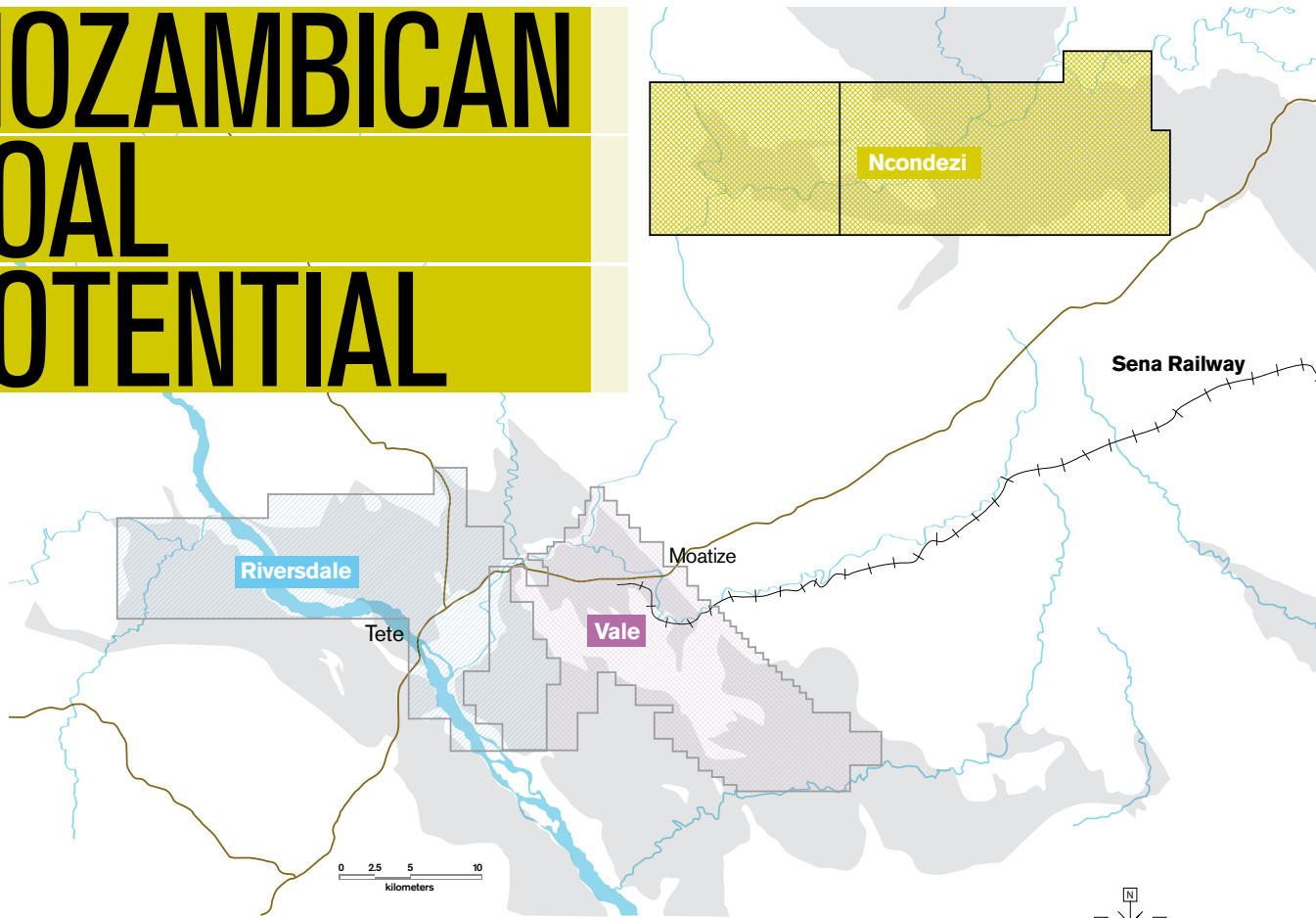
Raised US\$52m through the placing of new shares on 10 June 2010. These funds were raised to complete a DFS on the Ncondezi Project



MOZAMBIQUE
The Company's four licences are located in the Tete Province in North-West Mozambique

AT A GLANCE

MOZAMBICAN COAL POTENTIAL



Moatize-Minjova Coal Basin

-  Vale
-  Riversdale Mining
-  Ncondezi Coal Company
-  Lower Karoo Group
-  Sena Railway



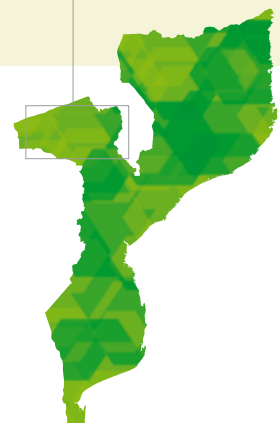
NCONDEZI LICENCE LOCATIONS

Ncondezi's licences are located in the Zambezi Coal Basin in the Tete Province, Mozambique, considered to be one of the largest undeveloped coal basins in the world.

The Ncondezi Project is located in an area within the Zambezi Coal Basin known as the Moatize-Minjova Coal Basin where the majority of Mozambique's more developed coal projects and infrastructure are located. The Moatize-Minjova Coal Basin has confirmed potential of both export quality thermal and coking coals.

The Ncondezi Project is approximately 30km from Vale S.A.'s ("Vale") US\$1.3bn Moatize Project and Riversdale Mining Ltd's ("Riversdale") US\$410m Benga Project.

Ncondezi's other two licences, 1314L & 1315L, are located on the south western and western borders of the Zambezi Coal Basin respectively.





1.8bt

JORC coal resource classified



+20Mtpa

Potential coal exports from Mozambique by 2015

THE NCONDEZI PROJECT

Ncondezi's flagship project, the Ncondezi Project, has a classified JORC resource of 1.8 billion tonnes ("bt").

A scoping study based on previous drilling and test work was completed in April 2010 and confirmed the economic viability of a 10 million tonnes per annum ("Mtpa") export thermal coal operation and identified the potential for coking coal.

Ncondezi is currently undertaking the necessary additional drilling and associated coal quality test work to complete a DFS together with a comprehensive environmental and social impact assessment study ("EISA") on the Ncondezi Project by July 2012. Following completion and approval of the DFS, Ncondezi expects first production at the Ncondezi Project to be achieved by late 2014.

REGIONAL EXPORT POTENTIAL

The Ncondezi Project is located 10km from the recently refurbished Sena Railway line which runs to the port of Beira.

First export of coal is expected in Q4 2011 from Vale and Riversdale with a total export capacity of 5Mtpa, however coal export production from the Moatize-Minjova Coal Basin is expected to reach +20Mtpa by 2015 and could more than double by 2018.

CHAIRMAN'S STATEMENT

The 2010 financial year has been a busy and transformational year for the Company as it listed on London's AIM market, announced an initial 1.8bt JORC coal resource on the Ncondezi Project, identified the potential for an economically viable 10Mtpa open pit mine, and raised the necessary funds required to complete a DFS on the Ncondezi Project.



The Company was admitted to trading on AIM on 10 June 2010 after a successful placing of 29m new shares at a price of 123p. This issue raised the equivalent of US\$52m pre costs and put 24% of the enlarged share capital into the hands of new institutional shareholders. The funding was required to undertake a 24 month work programme for the next phase of exploration on the Ncondezi Project in the Tete region of Mozambique, and the completion of a fast track DFS due for completion in mid-2012.

The listing followed an initial drilling programme of 122 boreholes that had identified a coal mineral resource estimated by consultants SRK Consulting (UK) Limited ("SRK") at 1.8bt. A scoping study completed by SRK in April 2010 identified the potential for a large-scale open pit mining operation. The new exploration programme commenced in September 2010.

The Group also owns two more remote licences 1314L and 1315L on which initial exploration work will be conducted during the second half of 2011. In June 2011 both exploration licences were granted extensions until 28 February 2014.

Activity in the Tete region has gathered pace. A number of international mining, steel and energy companies are investing in the region. The recent US\$4bn bid by Rio Tinto for Riversdale Mining has underlined just how serious the major mining groups are in developing the potential of the Zambezi Coal Basin. Although many challenges remain, the presence of both Vale and Rio Tinto increases the probability that infrastructural solutions for large scale exploitation of the basin will be forthcoming.

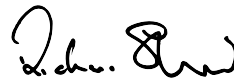
At the time of listing, Ncondezi entered into a put and call arrangement with the executor of the Dos Santos family which gave the Company the right to buy 12.2m shares at a 10% discount to the IPO listing price. On 19 January 2011, the Company successfully placed 12m new shares to raise US\$36.5m. After paying US\$21.3m for the Dos Santos shares and after expenses the Company was left with an additional US\$14m of cash and marginally fewer shares in issue. This placing broadened the institutional share base of the Company significantly upgrading the quality of the shareholder register. The issue also enabled the Company to introduce a strategic long-term investor in the form of Evergreen Resources Holding (HK) Limited ("Evergreen") with a 5% shareholding. Evergreen is a Shanghai based group with extensive experience in logistics and infrastructure development. Evergreen is keen to work together with Ncondezi in helping it develop infrastructural solutions in Mozambique and in helping Ncondezi broaden its resource base.

The additional cash in the Group provides the scope for exploring the potential of licences 1314L and 1315L, for studying and developing infrastructural solutions, and for pursuing M&A opportunities to add value for shareholders.

On 12 March 2011, the Provincial Governor of Tete officially opened the exploration camp at the flagship Ncondezi Project. The ceremony was also attended by the Mozambique Minister of Mineral Resources. All operations are being coordinated from this well-equipped facility which is on site.

Ncondezi now has a thoroughly professional and well balanced management team. The appointment of John Twidale as Exploration Manager in charge of all exploration activities in Mozambique was an important addition rounding out the skills set. The Group has an efficient operations team on the ground in Mozambique and a head office team with the necessary expertise to take advantage of opportunities in the region.

Events in Mozambique are moving ahead at an inexorable pace. The Company's ambitions have broadened since listing and it is now positioned as one of the few ways for investors to gain exposure to the development of a major new coal province.



Richard Stuart
Non-Executive Chairman

OPERATIONS REVIEW

NCONDEZI PROJECT

FROM CORE LOGGING
TO SAMPLING

Maiden JORC coal resource classification and coal scoping study were completed in 2010, following which the DFS work programme was initiated in September 2010

Government Approvals

In February 2010, both exploration licences 804L and 805L were renewed for a further three years until 17 December 2012. These extensions provide sufficient time to complete the necessary detailed exploration work required to complete a DFS on the Ncondezi Project, and as appropriate to apply for a mining licence.

Exploration Activities

During the financial period, SRK was mandated by the Group to undertake a JORC coal resource classification and a scoping study (preliminary economic assessment and geological study) on the Ncondezi Project. The work was based on the results from work programmes completed between 2007 and 2009, which included 122 boreholes drilled on the Ncondezi Project (totalling 16,737m), and coal quality analysis from samples sent to coal labs in Tete, Mozambique. A maiden JORC coal resource of 1,809mt was classified by SRK in February 2010, and the scoping study was completed in April 2010 confirming the potential for a 10Mtpa open-pit mining operation producing a 6,000 kcal/kg GAR thermal grade coal for export.

Key highlights from the scoping study were:

- A total mine capital cost of US\$376m.
- Average stripping ratio of 1.3.
- Life of mine of 37 years.
- Average life of mine FOB cash costs of US\$48.6/t.

The scoping study also highlighted results from a detailed set of coking coal tests performed by Ncondezi on three core hole composites in 2009 demonstrating that potential for coking coal exists on the Ncondezi Project. Further coal quality results were received in May 2011 from two large diameter holes drilled in Q4 2010. Results from LD hole 5001 have identified a coal with reasonable swells and rogas that can produce a coal with a swell greater than 7 and rogas of more than 60. The results justify further test work on the Ncondezi Project to determine the potential for a metallurgical coal product.



OPERATIONS REVIEW CONTINUED

Percussion Drilling

As part of the 2010 drill programme, which commenced in mid-August 2010, the Group began drilling new percussion holes on a grid across the whole Ncondezi Project licence areas. The objectives of the drill programme were to:

- Drill percussion boreholes in the licence areas on a 4km x 4km grid. This was followed by in-fill boreholes on a 2km x 2km grid where coal was intersected. All the boreholes were geophysically logged.
- Historical boreholes were reopened and geophysically logged to facilitate correlations of coal zones between old and new holes.

A total of 50 percussion boreholes were drilled during the programme, with a total metreage of 12,099 meters. 68% of the new percussion boreholes intersected coal zones. In addition, 31 historical boreholes were reopened with a total metreage of 4,478 meters.

Drilling chips from percussion boreholes were geologically logged and sampled, but not analysed. The majority of these boreholes were logged with down hole geophysical techniques by an independent contractor. Where possible, a full suite of sondes were utilised and these included natural gamma, density, neutron porosity, resistivity, dipmeter and calliper.

Core Drilling

The 2010 core drill programme focused on drilling parts of licence 805L. Core drilling objectives were to:

- Drill two large diameter scout boreholes for the purpose of acquiring a full complement of coking properties and washability data for the previously identified Coal Zone "A".
- Drill slim core ("HQ") boreholes on a 1km x 1km grid, focusing the drilling on the known coal resource areas. All the boreholes were geophysically logged.

Core drilling commenced in September 2010 with the drilling of two large diameter boreholes with a total metreage of 53 meters. A further 24 HQ cored boreholes were drilled with a total metreage of 4,023 meters. 95% of core boreholes intersected coal zones. All cored boreholes were geophysically logged, utilising a full suite of sondes.

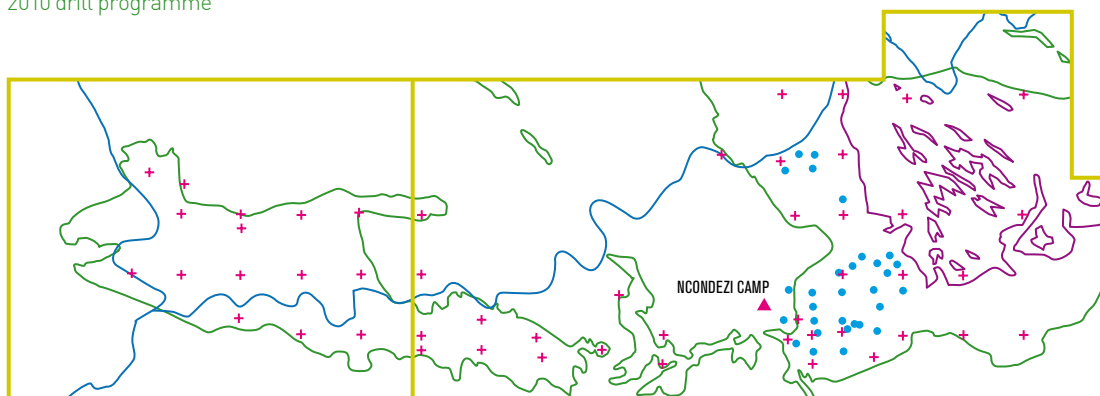
Geotechnical logging of the core was conducted to an internationally recognised standard, with core samples removed for Uniaxial Compressive Strength and Triaxial Strength testing.

Coal Sampling

The Company conducted a coal sampling programme for the 24 HQ cored and two large diameter boreholes drilled during the 2010 drill programme.

After core was logged at the drill rig, it was transported back to the exploration camp and coal intersections placed in the refrigeration unit to await sampling. The geological logs were corrected using the downhole geophysical logs and from this coal picks for sampling were identified. The coal zones were then sampled and couriered via airfreight to the ALS Laboratory Group ("ALS") in Witbank, South Africa, for full washability and coking tests. In addition to the coal zones, sections of the roof and floor strata of each sampled coal zone were also sampled and analysed.

840L & 805L
Locality plan of percussion boreholes drilled and reopened in the licence areas during the 2010 drill programme



Mapping and Aeromagnetic Survey

Between July and October 2010, a detailed regional field mapping campaign and airborne magnetic and radiometric survey were successfully completed over both licences 804L and 805L. The completed work provided a clearer definition of surface geology, geological structures, and the location and orientation of dykes.

Road Access

During the 2010 financial year a total of 40km of existing road was upgraded in the licence areas for the 2010 exploration programme.

An additional 84 borehole sites with connecting access roads were constructed across the licence areas. These borehole sites provided drilling access for the three coring and two percussion drill rigs during the drill programme. Maintenance of the exploration roads and access to borehole sites proved problematic during the latter part of November and December due to intermittent rainfall in the licence areas and surrounds.

Exploration Camp

Construction of the Ncondezi Project exploration camp began during 2010, to provide accommodation and necessary infrastructure for the majority of the Group's field team to be permanently based on site. The construction was completed at the end of January 2011.

Other Exploration Licences 1314L and 1315L

Due to remote location of both exploration licences 1314L and 1315L, the poor access and the unavailability of suitable drill rigs, it was considered unfeasible to undertake the proposed exploration work on the licence areas that had been originally envisaged during the second half of 2010. However, some geological mapping of the concessions was completed during the 2010 financial year which has been useful in establishing potential target drilling and sampling sites for the 2011 exploration programme.

In June 2011 both exploration licences were granted extensions until 28 February 2014. Accordingly the Group intends to commence an initial exploration programme for both licences during the second half of 2011.

Results from Operations

The Group generated a loss for the year of US\$472,000 (2009:US\$807,000). The loss per share for the year was 0.004 cents compared with a loss per share of 1 cents for 2009.

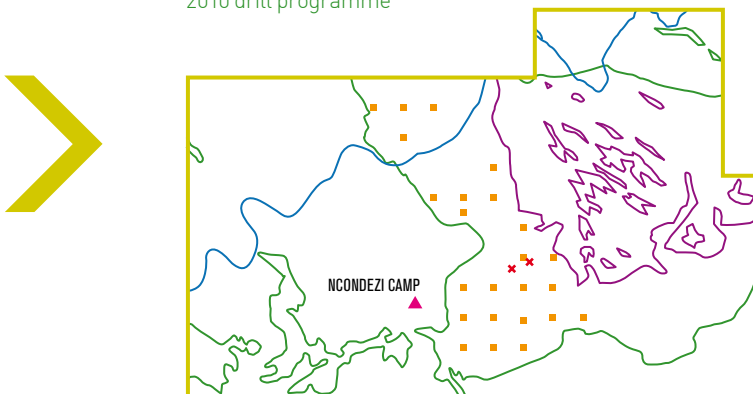
The Group spent US\$5m (2009: US\$2m) on exploration activities during the year.

Outlook

Over the next 12 months, Ncondezi will continue with the necessary work required to complete a DFS on the Ncondezi Project. On 1 February 2011, the Company recommenced drilling on Ncondezi Project following the end of the wet season in Tete, Mozambique. Drilling for the DFS Work Programme is expected to include 180 to 220 new boreholes to be completed by July/August 2011. This drilling programme and subsequent coal test work will provide information for a revised resource model expected in the second half of 2011, which will include good potential for new resources from previous undrilled areas. The revised resource model will be important for the next phase of mine, plant and cost optimisation analysis for the DFS.

The Company is also undertaking a detailed review of its rail and port options, as well as a review of power plant and coal gasification options for non-export grade coals that will be produced at the Ncondezi Project. Detailed studies have already been commissioned and initial results are expected during the 2011 financial year.

Locality plan of core boreholes drilled in Licence 805L during the 2010 drill programme



OPERATIONS REVIEW CONTINUED



There are three main options for the potential future transport of coal from the Zambezi Coal Basin to the seaborne market:

> 01

Sena Railway Line to Port of Beira

The recently refurbished Sena railway line, which runs approximately 575km from the town of Moatize to the port of Beira, is expected to handle first exports of coal from Mozambique in the second half of 2011. The initial coal export capacity of the railway line and port is 5Mtpa, and this capacity has already been allocated to Vale and Riversdale.

A new coal terminal at Beira with expanded rail network for between 18–24Mtpa is planned, with completion targeted between 2013 and 2014. The Sena railway line is 10km from the Ncondezi Project.

> 02

Nacala Railway to Port of Nacala

The port of Nacala is a natural deep water port (+25m depth), and requires the construction of a new coal terminal, refurbishment of 685km of existing railway that runs into Malawi, and the construction of an additional 200km of railway to connect to Moatize.

In September 2010, Vale announced the purchase of a controlling stake in the concession that manages the Nacala rail and port, and has budgeted US\$1.6bn to upgrade the railway line and port for the export of coal from Moatize by 2014.

The first phase of the upgrade is targeting capacity of 20Mtpa, but this can be increased to more than 40Mtpa in phases.

Vale has stated that the new rail and port will be multi-user, in line with the Mozambican Government's stance that transport infrastructure cannot be monopolised.



PORT OF NACALA AND MAP OF MAIN POTENTIAL FUTURE COAL EXPORT CORRIDORS



> 03

Barging Down the Zambezi River to Chinde and Tranship

Technical and environmental studies are currently being undertaken by Riversdale. This option has large potential but is dependent on results from environmental studies expected in H2 2011.

The Mozambique government is insistent on ensuring that future infrastructure is available to all users. Ncondezi maintains an ongoing dialogue with the Mozambican Government regarding access to infrastructure and is confident that it will be allocated capacity once the expanded infrastructure is in place.

In addition to the above infrastructure options the Company is working with two other coal companies in Mozambique to identify other alternative infrastructure solutions.

ENVIRONMENTAL & SOCIAL RESPONSIBILITY



**LOCAL COMMUNITY
MEMBERS ASSEMBLE
FOR TRADITIONAL
CEREMONY**



INVOLVING LOCAL COMMUNITIES

Social Responsibility

Camp Construction and Opening

The construction of the Ncondezi Project exploration camp was a successful demonstration of the Company's ZERO HARM policy in practice. The Company sourced employment from local villagers, provided business opportunities to the local businesses and small medium enterprises ("SMEs"), collaborated with senior government officials, and respected and observed local cultural tradition. The camp boasts of the following:

- Injury free construction over a six-month construction period.
- Created over 150 job opportunities mainly for locals at the peak of construction.
- Expenditure of US\$1.2m, the majority spent on the businesses and SMEs in Tete and Moatize.

Stakeholder Engagement: Project Affected Peoples ("PAPs")

Various social stakeholders were identified and engaged at community and local government levels in Kambulatsissi and Moatize, administrative areas within which the Ncondezi Project is located. Strides were also made with the government authorities at district and provincial levels in Moatize and Tete respectively. Consultative meetings were held and strategic rapports established with the community representatives and key government officials at district and local levels.

As a result of the stakeholder engagement, a solid consultative and communication platform was established between the Project and Stakeholders that enables continuous dialogue and effective conflict resolution. Key information was also gathered on community demography, job seekers and socio-economic activities.

Detailed Community Map

A detailed community map was created that shows all the villages of the 12 communities within the Ncondezi Project licence areas. Other community infrastructure like water points, cemeteries, shops, churches and schools were also captured.

ENVIRONMENTAL & SOCIAL RESPONSIBILITY CONTINUED



Maize Field Compensation

During the 2010 financial year, a total of 285 maize fields affected by exploration access roads were compensated. A total of US\$24,959 was paid out as an equivalent of two maize harvests from the affected parts of the fields. All beneficiaries signed declarations of consent and reception of compensation.

Two Spiritual Ceremonies

On 4 September 2010, two spiritual ceremonies were held at two local communities. The ceremonies were a joint initiative between the Company and the communities. According to the culture of the local communities, these ceremonies were needed to inform the ancestral spirits of the project and thus obtain blessings for the good of both the Company and the community. The District Administrator of Moatize was the guest of honour and officially represented the Government of Mozambique at the event. In his speech he appealed to the villagers to collaborate well with the Company.

Social Development Plan

A three year Social Development Plan ("SDP") was successfully presented and approved by the Board with an expenditure of US\$2m aimed at sustainable development initiatives for the local communities and the Mozambican society at large. The initiatives approved are below:

1. Community Support Donations – assistance going directly towards community aid such as infrastructure building/maintenance, school activities, humanitarian support;
2. Communal Activities Donations Assistance – given towards public events to be held in Kambulatsissi, Moatize and Tete;
3. Bike Ambulances;
4. Public Health Education Campaign – to cover HIV, malaria, cholera, primary health care, and public health;
5. Post Graduate Bursaries – two students already chosen for academic bursaries, plus two students picked for further education studies in mining;
6. Agricultural Support Scheme – project to benefit the local farmers within the Ncondezi Project licence areas by purchasing produce from the fields and help market the surplus product on the open market;

7. Rural Health Posts;
8. Water Boreholes – 21 water boreholes planned and awaiting results from groundwater studies;
9. Basic Skills Training Centre;
10. New School.

During the year the proposed activities were carried out as follows:

1. 285 Maize field compensations;
2. Donation of roofing material towards Rehabilitation of Waenera Primary School;
3. Donation of construction material towards a Heroes Shrine in Kambulatsissi.

Environment

Socio-Economic Study – Impacto, ERM

The socio-economic baseline study was put on a fast track timetable, and was completed by the latter part of the year. Support and collaboration was given to local environmental consultants Impacto Lda for the three field visits they had to site for the socio-economic study of the communities within the license area. Reconnaissance visits were also carried out at site by international environmental consultants, ERM.

Legal Compliance Government Relations

As part of the requirements for legal compliance of the operations, visits were made to site with government authorities to assess field activities for the issuing of various licenses. Ministry of Environment officially visited site and subsequently issued waste disposal recommendations for the camp; Moatize Administration visited site for roads and gravel usage license as well as ARA Zambeze for water licenses.

An addendum of the ESIA for the Ncondezi Project was completed to include the new camp. Two water licenses were issued by ARA Zambeze for surface and groundwater usage. Roads and gravel usage licence is still pending.

Main Operational Risks

Explosive Remnants of War ("ERW")

Following community engagement it was evident that previous reports of there being no exposure to ERW were untrue and there was evidence found of military activity on the concessions from civil wars experienced in Mozambique. Before the commencement of field



TRADITIONAL CEREMONIES WERE HELD IN THE LOCAL COMMUNITIES OF WAENERA Á MONGA IN SEPTEMBER 2010



Ncondezi has demonstrated its commitment to conduct exploration activities in a responsible manner from inception of operations.

activities a full level 1 survey was done on the entire Ncondezi Project and six areas were identified. These areas were established as no go areas, even though the risk of persons coming into contact with unexploded ordinance or landmines are extremely low. A full ERW briefing and procedures makes up a large part of the induction orientation for all employees, contractors and visitors.

Driving Safety

Due to the high volume of traffic, livestock, pedestrians, overloaded cargo trucks and poor road conditions driving is a major risk. In order to manage this risk restrictions are in place on road movement. Drivers are carefully selected and advanced driver training is given to all authorised vehicle users. During the six months July to December 2010, 350,000km were driven and one vehicle accident occurred (with no injuries) that was uncontrolled and out of working hours. Driving remains the biggest threat to the projects safety plan.

Drilling Safety

No incidents occurred despite the many risks associated with drilling. Careful contractor selection, ongoing engagement and monitoring have led to this result.

Malaria and Tropical Diseases

Northern Mozambique is a high level Malaria area and protocols are in place to prevent exposure of employees to the potentially lethal illness including:

- Education.
- Availability of repellent and mosquito nets.
- Regular spraying of insecticide including a residual spray programme.
- Testing and treatment on site.

Although there have been confirmed malaria cases, all have been treated without need for medical evacuation or external consultation.

Summary

Ncondezi has demonstrated its commitment to conduct exploration activities in a responsible manner from the inception of operations. Safety of all employees and contractors, effective Environmental Management and sustainable community projects have been priorities from the Board of Directors down to line management and employees.

BOARD OF DIRECTORS

DIRECTORS' BIOGRAPHIES

Richard Stuart

Non-Executive Chairman

Richard Stuart has over 17 years' experience in corporate finance. He is also currently the Chairman of Strata Limited, Ncondezi's largest shareholder. He was a partner in Martin & Co from 1978 and is a former Joint Senior Partner of Fleming Martin which was established in 1994, and was one of South Africa's leading brokerage firms. He played a key role in raising international equity capital for South African companies in the post-sanctions era and in the relocation of Gencor (as Billiton plc) and The South African Breweries Ltd onto the London Stock Exchange.

Graham Mascal

Chief Executive Officer

Graham Mascal has over 35 years of commercial, financial, and transaction experience in mergers and acquisitions, business development and project management in mining and mining finance. Over the course of his career, he has worked as a senior executive for a number of companies in the mining and mine finance sector. He has worked in senior positions for Billiton plc, the post-merger entity BHP Billiton plc, Deutsche Morgan Grenfell, Outokumpu Metals and Resources International Ltd, Barclays Bank, and was Chief Executive Officer of International Molybdenum Ltd and Lubel Coal Company (UK) Ltd. Mr Mascal is a graduate in mining engineering from the Camborne School of Mines and holds a Master of Engineering in Mineral Economics from McGill University. He is currently also a director of Gemfields Resources plc (LSE: GEM), London Mining plc (LSE: LOND) and Walter Energy Inc (NYSE: WLT).

Estevão Pale

Non-Executive Director

Estevão Pale has 27 years' experience in the mining industry. He is the Chief Executive Officer of Companhia Mocambicana de Hidrocarbonetos, S.A., a Mozambican natural gas company, where he negotiates sales agreements for natural gas and condensate as well as dealing with junior and senior lenders of the company. Between 1996 and 2005, he was the National Director of Mines in the Ministry of Mineral Resources and Energy, where he was responsible for the supervision and control of mineral activities in Mozambique and the formulation and implementation of the mining and geological policy approved by the government of Mozambique. Mr Pale has been a director of numerous companies in the mining sector including Promaco SARL and the Mining Development Company, as well as the General Director and Chief Executive of Minas Gerais de Moçambique. He has also conducted several consultancies for international organisations. Mr Pale has a postgraduate diploma in Mining Engineering from the Camborne School of Mines in Cornwall and a Masters degree in Financial Economics from the University of London (SOAS). He completed a course in Gas Business Management in Boston at the Institute of Human Resources Development corporation in 2006.

Nigel Sutherland**Non-Executive Director**

Nigel Sutherland has spent over 34 years working in the resource sector, of which the last nine years he has worked as a consultant and in Business Development for Partners in Performance International ("PIP"). During this period, he has delivered improvement results on a large underground coal mine, an aluminium smelter, a zinc smelter and a direct reduction iron plant. Nigel also has managed 20 site diagnostics across a number of different resource industries including coal mines in Kazakhstan, Czech Republic, South Africa and Australia in order to identify improvement opportunities to increase production, reduce costs and improve operational efficiencies. Nigel is a principal of PIP and is currently responsible for growing PIP's North American and African business. Prior to joining PIP, he gained wide experience in corporate, commercial, risk management and strategic planning through his roles at Anglo American plc, in merchant banking and in management consulting. He has worked in Namibia, South Africa and Australia as well as short assignments in Europe, Canada and the USA. Mr Sutherland has an MBA from the University of Cape Town and a Bachelor of Engineering (Metallurgy) from the University of Witwatersrand.

Colin Harris**Non-Executive Director**

Colin Harris has been working as an exploration geologist for over 40 years and has a wealth of experience in the generation, exploration and evaluation of projects covering a variety of commodities and deposit styles in over 25 countries mainly in Africa and Europe. He has worked for major international mining companies including Anglo American, Cominco and more recently

Rio Tinto. During his 18 years at Rio Tinto Mr Harris managed multi-million dollar programmes which in the past 15 years included the evaluation of iron ore deposits in Greenland, Scandinavia, Mali, Mauritania, Algeria, Morocco, Liberia, Senegal, Sierra Leone and more importantly between 1998 and 2008 heading up the team evaluating the world class Simandou iron ore project in the Republic of Guinea. Mr Harris resigned from Rio Tinto in 2008 and joined Zanaga Iron Ore Company Ltd later in the year as Project Director. Subsequently, he stepped down as Project Director of the Zanaga Project following the exercise of the Xstrata Call Option in February 2011.

Mark Trevan**Non-Executive Director**

Mark Trevan has over 30 years' experience in the mining and metals sector. He is currently the Managing Director of Caledon Resources Plc. Prior to joining Caledon in September 2006, he spent 25 years with Rio Tinto Ltd where he held senior executive roles in the areas of coal marketing, general commercial, corporate strategy and project feasibility. He joined Rio Tinto's Queensland coal subsidiary in 1997 as General Manager of Marketing, and through various corporate reorganisations also became responsible for the marketing of Rio Tinto's Coal and Allied subsidiary and its Indonesian coal operations. During his time as General Manager of Marketing, Rio Tinto opened two coking coal mines and is now a significant participant in the internationally-traded metallurgical coal market, in addition to its substantial presence in the thermal coal market. Mr Trevan is a graduate in Applied Finance and Investment from the Securities Institute of Australia and holds a Diploma of Business (Accounting) from the Preston Institute of Technology.

DIRECTORS' REPORT

The Directors present their Annual Report and the audited Group financial statements for the year ended 31 December 2010.

Principal activities

The principal activity of the Group is coal exploration.

Business review and future developments

The purpose of this review is to show how the Group assesses and manages risk and uncertainty and adopts appropriate policies and targets. Further details of the Group's business and expected future developments are also set out in the Chairman's Statement on pages 4 and 5 and in the Operations Review on pages 6 to 11.

Principal risks and uncertainties

The Group operates in an uncertain environment that may result in increased risk, cost pressures and schedule delays. The following are some of the key risks that face the Group:

Exploration and development risk

There is no assurance that the Group's exploration activities will be successful, and statistically few properties that are explored are ultimately developed into producing mines.

The Group's operations may also be curtailed, delayed or cancelled as a result of economic, environmental and political conditions in the area of operation.

Financing

The development of the Group's properties will depend upon the Group's ability to obtain financing primarily through the raising of new equity capital, but also by means of joint venture of projects, debt financing, farm outs or other means. There is no assurance that the Group will be successful in obtaining the required financing. If the Group is unable to obtain additional financing as needed some interests may be relinquished and/or the scope of the operations reduced.

Environmental and other regulatory requirements

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. Before exploration and production can commence on any properties, the Group must obtain regulatory approval and there is no assurance that such approvals will be obtained. No assurance can be given that new rules and regulations will not be enacted or existing rules and regulations will not be applied in a manner which could limit or curtail the Group's operations.

Key performance indicators

The key performance indicators of the Group are as follows:

	2010	2009
Exploration expenditure (US\$'000)	5,078	2,227
Meters drilled	20,653	10,978
Share price at 31 December (pence)	200.5	n/a
Cash at bank at 31 December (US\$'000)	38,068	15

Results and dividends

The results of the Group for the year ended 31 December 2010 are set out on page 26.

The Directors do not recommend payment of a dividend for the year (2009: nil). The loss will be transferred to reserves.

Events after the reporting date

See note 22 for further information.

Directors and Directors' interests

Director	Ordinary Shares held 31 December 2010	Ordinary Shares held 31 December 2009
Richard Stuart	–	–
Graham Mascal	336,130	–
Estevão Pale	–	–
Nigel Sutherland	–	–
Colin Harris	–	–
Mark Trevan	–	–

Richard Stuart is a director of Strata Limited, which beneficially owns 54,289,641 Ordinary Shares, or 45.56% of the Company's issued shares.

Long-term incentive plan ("LTIP")

See note 15 for further details.

Annual General Meeting

Resolutions will be proposed at the forthcoming Annual General Meeting, as set out in the Formal Notice which will be mailed to shareholders in due course.

In accordance with the Company's Articles of Association one third of the Directors are required to retire by rotation. Accordingly, Richard Stuart and Estevão Pale will offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

Corporate Governance

The Company's compliance with the principles of corporate governance is explained in the corporate governance statement on pages 20 and 21.

Ordinary Share capital

Details of issues of Ordinary Share capital during the year are set out in note 13.

The Company's Ordinary Shares with no par value represent 100% of its total share capital. At a meeting of the Company every member present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder. Holders of Ordinary Shares are entitled to receive dividends. On a winding-up or other return of capital, holders are entitled to share in any surplus assets pro rata to the amount paid up on their Ordinary Shares. The shares are not redeemable at the option of either the Company or the holder. There are no restrictions on the transfer of shares.

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 18 of the financial statements.

Financial risk management**Financial risk factors**

The Group's multi-national operations expose it to a variety of financial risks: market risk, foreign currency exchange rates and interest rates, liquidity risk, and credit risk.

(i) Market risk

The market price of coal is volatile and is affected by numerous factors beyond the Group's control.

(ii) Foreign exchange and interest rate risk

The Group is exposed to currency movements on operating expenses incurred in the UK and Mozambique. Accordingly, foreign exchange fluctuations may adversely affect the Group's financial position and operating results.

(iii) Liquidity risk

Prudent liquidity risk management in the context of the Group implies maintaining sufficient cash or marketable securities in the necessary currencies to be able to pay creditors as and when they fall due.

The bulk of the Group's cash balances are held in US dollar denominated floating rate deposits as required to fund its short-term requirements.

(iv) Credit risk

Cash balances are deposited with banks with a high credit rating.

Disclosure of information to auditors

So far as each Director at the date of approval of this report is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

BDO LLP have expressed their willingness to continue in office as auditors, and a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board

Elysium Fund Management Limited**Company Secretary**

23 June 2011

CORPORATE GOVERNANCE STATEMENT

The Company, which is listed on AIM, is not formally required to comply with the UK Corporate Governance Code (formerly the Combined Code, as amended in June 2008) (the "UK Corporate Governance Code"), which applies to companies which are fully listed on the London Stock Exchange. However, the Board has given consideration to the provisions set out in Section 1 of the UK Corporate Governance Code. The Directors support the objectives of this code and intend to comply with those aspects which they consider relevant to the Group's size and circumstances.

Details of the key areas relating to the UK Corporate Governance Code are set out below. A statement of the Directors' responsibilities in respect of the financial statements is set out on page 23. Below is a brief description of the role of the Board and its committees, including a statement regarding the Group's system of internal financial control.

The workings of the Board and its committees

The Board of Directors

The Board currently comprises a Non-Executive Chairman, (Richard Stuart), one Executive Director (Graham Mascall) and four further Non-Executive Directors (Colin Harris, Estevão Pale, Nigel Sutherland and Mark Trevan).

The Board considers that Colin Harris, Estevão Pale, Nigel Sutherland and Mark Trevan are independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement.

An agreed procedure exists for Directors in the furtherance of their duties to take independent professional advice. With the prior approval of the Chairman, all Directors have the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. If the Chairman is unable or unwilling to give approval, Board approval will be sufficient. Newly appointed Directors are made aware of their responsibilities through the Company Secretary. The Company does not make any provision for formal training of new Directors.

The Company has established properly constituted audit and remuneration committees of the Board with formally delegated duties and responsibilities.

Conflicts of interest

The Board confirms that it has instituted a process for reporting and managing any conflicts of interest held by Directors. Under the Company's Articles of Association, the Board has the authority to authorise, to the fullest extent permitted by law:

- (a) any matter which would otherwise result in a Director infringing his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company and which may reasonably be regarded as likely to give rise to a conflict of interest (including a conflict of interest and duty or conflict of duties);
- (b) a Director to accept or continue in any office, employment or position in addition to his office as a Director of the Company and may authorise the manner in which a conflict of interest arising out of such office, employment or position may be dealt with, either before or at the time that such a conflict of interest arises provided that for this purpose the Director in question and any other interested Director are not counted in the quorum at any Board meeting at which such matter, or such office employment or position, is approved and it is agreed to without their voting or would have been agreed to if their votes had not been counted.

A Relationship Agreement was executed on 3 June 2010 between the Company and Strata Limited ("Strata") in order to manage inter alia potential conflicts of interest in respect of Directors nominated by Strata. Under the terms of this agreement Strata, has the right to nominate up to two Directors to the Board of the Company, and has nominated Richard Stuart.

Company materiality threshold

The Board acknowledges that assessment on materiality and subsequent appropriate thresholds are subjective and open to change. As well as the applicable laws and recommendations, the Board has considered quantitative, qualitative and cumulative factors when determining the materiality of a specific relationship of Directors.

Ethical standards

The Board has not adopted a formal code of conduct however as part of the Board's commitment to the highest standard of conduct, the Board will consider adopting a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct will cover such matters as:

- Responsibilities to shareholders.
- Compliance with laws and regulations.
- Relations with customers and suppliers.
- Ethical responsibilities.
- Employment practices.
- Responsibility to the environment and the community.

Board meetings

Board meetings are held on average every quarter. Decisions concerning the direction and control of the business are made by the Board.

Generally, the powers and obligations of the Board are governed by the Company's Memorandum and Articles and The BVI Business Companies Act 2004, as amended and the other laws of the jurisdictions in which it operates. The Board is responsible, inter alia, for setting and monitoring Group strategy, reviewing trading performance, ensuring adequate funding, examining major acquisition opportunities, formulating policy on key issues and reporting to the shareholders.

The Audit Committee

The Audit Committee comprised Mark Trevan (Committee Chairman) and Richard Stuart during the year.

The Committee provides a forum for reporting by the Group's external auditors. Meetings are held on average twice a year and are also attended, by invitation, by the Non-Executive Directors.

The Audit Committee is responsible for reviewing a wide range of financial matters including the annual and half year results, financial statements and accompanying reports before their submission to the Board and monitoring the controls which ensure the integrity of the financial information reported to the shareholders.

The Remuneration Committee

The Remuneration Committee comprised Nigel Sutherland (Committee Chairman) and Richard Stuart during the year.

The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Remuneration Committee determines the contract terms, remuneration and other benefits for the Executive Directors, including performance related bonus schemes, compensation payments and option schemes. The Board itself determines the remuneration of the Non-Executive Directors.

A report from the Remuneration Committee appears on page 22.

Internal financial control

The Board is responsible for establishing and maintaining the Group's system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the Group concerned and the risk to which it is exposed, and by its very nature can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors are conscious of the need to keep effective internal financial control, particularly in view of the cash resources of the Group. Due to the relatively small size of the Group's operations, the Directors are very closely involved in the day-to-day running of the business and as such have less need for a detailed formal system of internal financial control. The Directors have reviewed the effectiveness of the procedures presently in place and consider that they are still appropriate to the nature and scale of the operations of the Group.

Continuous disclosure and shareholder communication

The Board is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market. The Company has procedures in place to ensure that all price sensitive information is identified, reviewed by management and disclosed to the AIM in a timely manner.

All information disclosed on AIM is posted on the Company's website <http://www.ncondezicoal.com>. Shareholders are forwarded documents relating to each Annual General Meeting, being the Annual Report, Notice of Meeting and Explanatory Memorandum and Proxy Form, and are invited to attend these meetings.

Managing business risk

The Board constantly monitors the operational and financial aspects of the Company's activities and is responsible for the implementation and ongoing review of business risks that could affect the Company. Duties in relation to risk management that are conducted by the Directors include but are not limited to:

- Initiate action to prevent or reduce the adverse effects of risk.
- Control further treatment of risks until the level of risk becomes acceptable.
- Identify and record any problems relating to the management of risk.
- Initiate recommend or provide solutions through designated channels.
- Verify the implementation of solutions.
- Communicate and consult internally and externally as appropriate.
- Inform investors of material changes to the Company's risk profile.

Ongoing review of the overall risk management programme (inclusive of the review of adequacy of treatment plans) is conducted by external parties where appropriate. The Board ensures that recommendations made by the external parties are investigated and, where considered necessary, appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

Going concern

The Directors have reviewed future cash forecasts, with particular reference to minimum expenditure requirements on licences and the intended work programme for the next 12 months, and have reasonable expectation that the Group will have adequate resources to meet its commitments. Accordingly the financial statements have been prepared on a going concern basis.

As at 31 December 2010 the Group's cash and cash equivalent stood at US\$38m. The Group intends to operate within its cash resources.

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee (the "Committee") comprised Nigel Sutherland (Committee Chairman) and Richard Stuart, during the year ended 31 December 2010.

Remuneration packages are determined with reference to market remuneration levels, individual performance and the financial position of the Company and the Group.

The Board determines the remuneration of Non-Executive Directors within the limits set by the Company's Articles of Association. They have letters of engagement with the Company and their appointments are terminable on one months' or three months' written notice on either side.

Long-term incentive plan ("LTIP")

The Company adopted a LTIP which is administered by the remuneration committee of the Board. The LTIP is discretionary and the remuneration committee will decide whether to make share awards under the LTIP at any time.

Director	Date of grant	Number granted	Exercise price	Date exercisable from
Richard Stuart	11 June 2010	100,000	123p	10 June 2011
Graham Mascall	27 May 2010	2,400,000	Nil	27 May 2010
Graham Mascall	27 May 2010	800,000	25c	27 May 2010
Estevão Pale	15 June 2010	75,000	123p	10 June 2011
Nigel Sutherland	15 June 2010	75,000	123p	10 June 2011
Colin Harris	11 June 2010	75,000	123p	10 June 2011
Mark Trevan	11 June 2010	75,000	123p	10 June 2011

Directors' service agreements

None of the Directors has a service contract which is terminable on greater than one year's notice.

Non-Executive Directors' fees

The Company has adopted a standard level of fees for Non-Executive Directors of £40,000 per annum, and £70,000 for the Chairman.

Directors' remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2010 for individual directors who held office in the Company during the period. All amounts are in US dollars.

Director	Base salary/fee US\$'000	Bonus US\$'000	Pension US\$'000	Share based payments US\$'000	Total 2010 US\$'000	Total 2009 US\$'000
Richard Stuart	63	-	-	32	95	-
Graham Mascall	400	186	63	4,035	4,683	34
Estevão Pale	61	-	-	24	85	-
Nigel Sutherland ¹	36	-	-	24	60	-
Colin Harris	36	-	-	24	60	-
Mark Trevan	36	-	-	24	60	-
	632	186	63	4,163	5,043	34

1. This includes US\$35,975 paid to Mines Value Management for services provided by Nigel Sutherland.

On behalf of the Remuneration Committee

Nigel Sutherland
Remuneration Committee Chairman
 23 June 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' report and the financial statements for the Group.

The Directors have prepared the financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

International Accounting Standards require that the financial statements present fairly for each financial period the Group's financial position, financial performance and cash flows. This requires the faithful presentation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the Directors to:

- Consistently select and apply appropriate policies.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF NCONDEZI COMPANY LIMITED

We have audited the financial statements of Ncondezi Coal Company Limited for the year ended 31 December 2010 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Our report has been prepared pursuant to our engagement letter dated 4 January 2011 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of our engagement letter dated 4 January 2011 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of, in all material respects of the state of the Group's affairs as at 31 December 2010 and of its loss for the year then ended.
- Have been properly prepared in accordance with IFRSs as adopted by the European Union.

Opinion on other matters

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

BDO LLP

Chartered Accountants

London
United Kingdom

Date 23 June 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 US\$'000	2009 US\$'000
Other administrative expenses	3	(5,328)	(807)
Share-based payments charge	3	(5,865)	-
Total administrative expenses and loss from operations		(11,193)	(807)
Finance income		32	-
Gain on derivative financial asset	16	10,813	-
Finance expense		(19)	-
Loss for the period before taxation		(367)	(807)
Taxation	4	(105)	-
Loss for the period attributable to equity shareholders of the parent company		(472)	(807)
Loss per share expressed in cents			
Basic and diluted	5	(0.004)	(1.0)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 US\$'000	2009 US\$'000
Loss after taxation	(472)	(807)
Other comprehensive income:		
Exchange differences on translating foreign operations	5	-
Total comprehensive income for the period	(467)	(807)

The notes on pages 29 to 44 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 US\$'000	2009 US\$'000
Assets			
Non-current assets			
Intangible assets	6	13,586	8,415
Property, plant and equipment	7	1,942	81
Total non-current assets		15,528	8,496
Current assets			
Trade and other receivables	9	1,272	17
Derivative financial asset	16	17,104	–
Cash and cash equivalents	10	38,068	15
Total current assets		56,444	32
Total assets		71,972	8,528
Liabilities			
Current liabilities			
Current tax payable		106	–
Loans and borrowings	11	–	5,042
Trade and other payables	12	2,430	955
Total current liabilities		2,536	5,997
Total liabilities		2,536	5,997
Capital and reserves attributable to shareholders			
Share capital	13	59,245	1
Share premium	13	–	3,528
Foreign currency translation reserve		5	–
Other reserves		5,791	–
Retained earnings		4,395	(998)
Total capital and reserves		69,436	2,531
Total equity and liabilities		71,972	8,528

The financial statements were approved by the Board of Directors on 23 June 2011.

Graham Mascal

The notes on pages 29 to 44 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital US\$'000	Share premium US\$'000	Other reserves US\$'000	Foreign currency translation reserve US\$'000	Retained earnings US\$'000	Total US\$'000
At 1 January 2010	1	3,528	-	-	(998)	2,531
Reclassification of shares	3,528	(3,528)	-	-	-	-
Loss for the period	-	-	-	-	(472)	(472)
Comprehensive income for the period	-	-	-	5	-	5
Capitalisation of shareholder loans	7,204	-	-	-	-	7,204
Issue of shares	52,000	-	-	-	-	52,000
Costs associated with issue of shares	(3,488)	-	-	-	-	(3,488)
Derivative financial asset	-	-	5,791	-	-	5,791
Equity settled share-based payments	-	-	-	-	5,865	5,865
At 31 December 2010	59,245	-	5,791	5	4,395	69,436

	Share capital US\$'000	Share premium US\$'000	Foreign currency translation reserve US\$'000	Retained earnings US\$'000	Total US\$'000
At 1 January 2009	1	3,528	-	(191)	3,338
Total comprehensive income for the period	-	-	-	(807)	(807)
At 31 December 2009	1	3,528	-	(998)	2,531

The notes on pages 29 to 44 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 US\$'000	2009 US\$'000
Cash flow from operating activities			
(Loss) before taxation		(366)	(807)
Adjustments for:			
Finance income		(32)	-
Finance expense		19	-
Share-based payments charge	3	5,865	-
Derivative financial asset		(10,813)	-
Unrealised foreign exchange movements		(68)	-
Expenditure recharged from parent company		-	637
Disposal of property plant and equipment		16	-
Depreciation		92	20
Net cash flow from operating activities before changes in working capital		(5,287)	(150)
Increase in payables		1,195	150
(Increase) in receivables		(1,399)	-
Net cash flow from operating activities before tax		(5,491)	-
Net cash flow from operating activities after tax		(5,491)	-
Investing activities			
Payments for property, plant and equipment	7	(1,962)	-
Payments for other intangibles	6	(103)	-
Interest received		32	-
Exploration costs capitalised	6	(5,078)	-
Net cash flow from investing activities		(7,111)	-
Financing activities			
Issue of Ordinary Shares		52,000	-
Bank charges		(19)	-
Cost of share issue		(3,488)	-
Shareholder loans received		2,162	-
Net cash flow from financing activities		50,655	-
Net increase/(decrease) in cash and cash equivalents in the period		38,053	-
Cash and cash equivalents at the beginning of the period		15	15
Effect of foreign exchange rate changes on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the period		38,068	15

The notes on pages 29 to 44 form part of these financial statements.

The Group had no significant cash transactions in 2009. All significant additions in 2009 were financed through shareholder loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principal accounting policies

The Company is a limited liability company incorporated on 30 March 2006 in the British Virgin Islands as Reeza Global Limited. The Company changed its name on 7 December 2009 to Ncondezi Coal Company Limited. The address of its registered office is 2nd floor, Wickham's Cay II, PO Box 221, Road Town, Tortola, British Virgin Islands. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRS").

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

The Group financial information is presented in United States dollars (US\$) and values are rounded to the nearest thousand dollars (US\$'000).

Loss from operations is stated after charging and crediting all operating items excluding finance income and expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of revision and future periods if the revision affects both current and future periods.

The following new standards, interpretations and amendments to existing standards have been adopted by the Group:

International Accounting Standards (IAS/IFRS)		Effective date
IAS 27	- Amendment - Consolidated and separate financial statements	1 July 2009
IFRS 3	- Revised - Business combinations	1 July 2009
IAS 39	- Amendment - Financial Instruments: recognition and measurement: Eligible hedged items	1 July 2009
IAS 39	- Amendment - Reclassification of financial assets: effective date and transition	1 July 2009
IFRIC 9 & IAS 39	- Amendment - Embedded derivatives	1 January 2010
IFRS 2	- Amendment - Group cash settled share-based payments	1 January 2010
IFRS 1	- Amendment - Additional exemptions for first-time adopters	1 January 2010
Improvements to IFRSs	- Amendments to various statements issued 6 May 2010	1 January 2010
International Financial Reporting Interpretations (IFRIC)		Effective date
IFRIC 16	- Hedges of net investment in a foreign operation	1 January 2010
IFRIC 17*	- Distributions of non-cash assets to owners	1 January 2010
IFRIC 18*	- Transfers of assets from customers	1 January 2010

The adoption of these standards, interpretations and amendments did not affect the Company results of operations or financial positions. No other IFRS issued and adopted but not yet effective are expected to have an impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Principal accounting policies continued

Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

Standard	Description	Effective date
IAS 32	Amendment – Classification of right issues	1 February 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
IFRS 1	Amendment – first time adoption of IFRS	1 July 2010
IAS 24	Revised – Related party disclosures	1 January 2011
IFRIC 14	Amendment – IAS 19 Limit on a defined benefit asset	1 January 2011
IFRS 7*	Amendment – Transfer of financial assets	1 July 2011
IFRS 1*	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
Improvements to IFRSs (2010)*	Miscellaneous amendments resulting from the IASB's annual improvements projects	1 January 2011
IAS 12*	Deferred tax: recovery of underlying Assets	1 January 2012
IFRS 9*	Financial instruments	1 January 2013
IFRS 10*	Consolidated financial statements	1 January 2013
IFRS 11*	Joint arrangements	1 January 2013
IFRS 12*	Disclosure of involvement with other entities	1 January 2013
IAS 28	Investments in associates (revised 2011)	1 January 2013
IAS 27	Separate financial statements (revised 2011)	1 January 2013

The Group has not yet assessed the impact of IFRS 9. Except for the amended disclosure requirements of IAS 24 (Revised), amendments and interpretations are not expected to materially affect the Group's reporting or reported numbers.

* Not yet endorsed by European Union.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors.

Share-based payments

Equity-settled share-based payments to employees and Directors are measured at the fair value of the equity instrument. The fair value of the equity-settled transactions with employees and Directors is recognised as an expense over the vesting period. The fair value of the equity instrument is determined at the date of grant, taking into account market based vesting conditions.

The fair value of the equity instrument is measured using the Black-Scholes model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

Property, plant and equipment

Property, plant and equipment are stated at cost on acquisition less depreciation. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

The annual rate of depreciation for each class of depreciable asset is:

Plant and equipment	25%
Computers and related equipment	33%
Furniture and fixtures	20%–25%
Motor vehicles	25%

The carrying value of property plant and equipment is assessed annually and any impairment is charged to the income statement.

Assets in the course of construction are capitalised in the construction in progress account. Costs capitalised include the purchase price of the asset and any costs directly attributable to bringing it into working condition for its intended use. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. Construction in progress is not depreciated.

Impairment

The carrying amounts of non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in the prior years.

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Group's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairments are recognised in the income statement to the extent that the carrying amount exceeds the assets carrying amount. The revised carrying amounts are amortised in line with the Group's accounting policies.

Operating leases

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease") amounts payable under the lease are charged to the income statement on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs incurred in respect of general borrowings are recognised in profit or loss as they accrue, using the effective interest method. There are no borrowings directly attributable to the acquisition, construction or production of qualifying assets.

Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in United States dollars, which is the functional currency of the Company and its main subsidiaries, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic resources will result and that outflow can be reliably measured.

Rehabilitation

Provisions are made for the estimated rehabilitation costs relating to areas disturbed during exploration activities up to reporting date but not yet rehabilitated.

Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which may be incurred due to the impact of possible changes in environmental legislation.

Exploration and evaluation assets

All costs associated with exploring and evaluating prospects within licence areas, including the initial acquisition of the licence are capitalised on a project-by-project basis pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overheads. When a decision is made to proceed to development, the related expenditures will be transferred to proven mining properties. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Company, the related costs will be written off.

Currently exploration and evaluation costs are allocated to a single exploration and evaluation asset being the exploration and evaluation properties in Mozambique.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Principal accounting policies continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group did not have any financial assets designated as held to maturity or held for trading. Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only in-the-money derivatives. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated income statement as the finance income or expense.

Loans and receivables

Loans and receivables (including trade receivables) are measured on initial recognition at fair value and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

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

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group classifies its financial liabilities only as held at amortised cost.

Held at amortised cost

Financial liabilities including trade payables and borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet.

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Groups Ordinary Shares are classified as equity instruments.

For the purposes of the disclosures given in note 13, the Group considers its capital to be total equity.

The Group is not subject to any externally imposed capital requirements.

2. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Accounting judgements

(i) Impairment of exploration and evaluation assets

In accordance with the accounting policy stated above, the Group tests annually to see whether exploration and evaluation assets have suffered any impairment.

The recoverability of the amounts shown in the Group balance sheet in relation to deferred exploration and evaluation expenditure are dependent upon the discovery of economically recoverable reserves, continuation of the Group's interest in the underlying mining claims, the political, economic and legislative stability of the regions in which the Group operates, compliance with the terms of the relevant mineral rights licences, the Group's ability to obtain the necessary financing to fulfil its obligations as they arise and upon future profitable production or proceeds from the disposal of properties.

Accounting estimates

(i) Provisions for liabilities

As a result of exploration activities the Group is required to make a provision for rehabilitation. Due to the early stage of exploration activity no significant damage has been caused.

3. Administrative expenses

	2010 US\$'000	2009 US\$'000
Staff costs	2,277	169
Professional and consultancy	1,402	566
Office expenses	598	4
Travel and accommodation	969	37
Other expenses	777	31
Foreign exchange gain	(695)	–
Other administrative expenses	5,328	807
Share-based payments*	5,865	–
Total administrative expenses	11,193	807

* The share-based payments charge relates to 6.7 million share awards granted to directors and senior management. Of this amount 3.6 million share awards with a fair value of US\$4.6 million vested in full on 10 June 2010. As a result the US\$4.6 million was expensed in full as at 31 December 2010.

Auditors' remuneration

	2010 US\$'000	2009 US\$'000
Group auditors' remuneration		
– audit of the Group's accounts	68	45
– audit of the Group's subsidiaries	11	10
Other services		
– services relating to the corporate finance transactions entered by or on behalf of the Group	141	–
– other services relating to taxation	62	–
	282	55

Staff costs (including directors)

	2010 US\$'000	2009 US\$'000
Wages and salaries	2,849	223
Share based payments	5,865	–
Social security costs	199	9
	8,913	232

US\$770,791 (2009: US\$61,000) included within wages and salaries related to exploration and evaluation costs and have been capitalised to intangible assets (note 6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. Administrative expenses continued

The average monthly number of employees (including executive Directors) of the Group were:

	2010 Number	2009 Number
Operational	8	1
Administration	12	7
	20	8

Key management compensation:

	2010 US\$'000	2009 US\$'000
Salary	1,697	65
Fees	232	99
Social security costs	178	7
	2,107	171
Pension	76	-
Share based payments	5,865	-
	8,048	171

Key management personnel are considered to be Directors and senior management of the Group.

4. Taxation

The Group entities subject to corporate income tax are Zambezi Energy Corporation Limitada which is subject to tax at the rate of 32% on its profits in Mozambique and Ncondezi Services (UK) Limited which is subject to tax at a rate of 28% on its profits in the UK. No tax charge/(credit) arose in the current or prior year for Zambezi Energy Corporation Limitada.

Tax payable for 2010 has been estimated at US\$105,000 and has been reconciled to the expected taxcharge based on the Group losses at the standard rate of taxation in the UK where the Group has generated taxable profits as follows:

	2010 US\$'000	2009 US\$'000
Current tax – UK corporation tax	105	-
Group loss on ordinary activities before tax	(366)	(807)
Effects of:		
Reconcile to UK corporation tax rate of 28% (2009: 28%)	(102)	-
Differences arising from different tax jurisdictions	(96)	-
Non-deductible expenses	23	-
Unrecognised taxable losses carried forward	280	-
Total tax charge for the year	105	-

No deferred tax asset has been recognised for tax losses of US\$280,000 (2009: nil) carried forward within the Group's exploration subsidiary Zambezi Energy Corporation Limitada, as the recovery of this benefit is dependent on the future profitability, the timing and certainty of which cannot be reasonably foreseen.

5. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of Ordinary Shares outstanding during the year.

The weighted average number of Ordinary Shares outstanding during the period and for the prior periods presented has been adjusted in accordance with IAS 33. The adjustment reflects the share division that took place on 25 May 2010 where each issued Ordinary Share of US\$1 each was divided into 80,000 Ordinary Shares of no par value. The adjustment is made retrospectively as if the share division took place at the start of the comparative period.

Due to the losses incurred during the period a diluted loss per share has not been calculated as this would serve to reduce the basic loss per share.

There were share incentives and warrants outstanding at the end of the period that could potentially dilute basic earnings per share in the future. Potential Ordinary Shares of 1,447,822 (2009: nil) have therefore been excluded from the calculations below. All potential Ordinary Shares have been issued post year end (note 22).

	2010			2009		
	Loss US\$'000	Weighted average number of shares (thousands)	Per share amount (cents)	Loss US\$'000	Weighted average number of shares (thousands)	Per share amount (cents)
Basic and diluted LPS	(472)	99,950	(0.004)	(807)	80,000	(1.0)

6. Intangible assets

	Exploration and evaluation costs US\$'000	Other intangible assets US\$'000	Total US\$'000
Cost			
At 1 January 2010	8,415	–	8,415
Additions	5,078	103	5,181
At 31 December 2010	13,493	103	13,596
At 1 January 2009	6,138	–	6,138
Additions	2,277	–	2,277
At 31 December 2009	8,415	–	8,415
Amortisation			
At 1 January 2010	–	–	–
Amortisation charge	–	10	10
At 31 December 2010	–	10	10
Net book value 2010	13,493	93	13,586
Net book value 2009	8,415	–	8,415
Net book value 2008	6,138	–	6,138

Exploration costs relate to the initial acquisition of the licences and subsequent exploration expenditure incurred in evaluating the 804L, 805L, 1314L and 1315L licence areas situated in the Tete, Mozambique.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. Property, plant and equipment

	Assets in the course of construction US\$'000	Plant and equipment US\$'000	Office and computer equipment US\$'000	Furniture and fixtures US\$'000	Motor vehicles US\$'000	Total US\$'000
Cost						
At 1 January 2009	-	79	-	9	30	118
Additions	-	-	33	1	-	34
Disposals	-	-	-	-	-	-
At 1 January 2010	-	79	33	10	30	152
Additions	1,358	317	16	23	248	1,962
Disposals	-	(79)	-	-	(12)	(91)
Exchange adjustment	-	-	(3)	-	-	(3)
At 31 December 2010	1,358	317	46	33	266	2,020
Depreciation						
At 1 January 2009	-	33	-	2	8	43
Depreciation charge	-	20	-	1	7	28
Disposals	-	-	-	-	-	-
At 1 January 2010	-	53	-	3	15	71
Depreciation charge	-	31	12	4	35	82
Disposals	-	(63)	-	-	(12)	(75)
At 31 December 2010	-	21	12	7	38	78
Net book value 2010	1,358	296	34	26	228	1,942
Net book value 2009	-	26	33	7	15	81
Net book value 2008	-	46	-	7	22	75

8. Subsidiaries

The Group has the following subsidiary undertakings:

		% interest 2010	% interest 2009	Country of incorporation	Activity
Zambezi Energy Corporation Holdings 1 Limited	"ZECH1"	100	100	Mauritius	Holding company
Zambezi Energy Corporation Holdings 2 Limited	"ZECH2"	100	100	Mauritius	Holding company
Zambezi Energy Corporation Limitada	"ZECL"	100	100	Mozambique	Mining exploration
Ncondezi Services (UK) Limited	"NSUL"	100	100	UK	Service company

Zambezi Energy Corporation Limitada is owned by Zambezi Energy Corporation Holdings 1 Limited and Zambezi Energy Corporation Holdings 2 Limited.

9. Trade and other receivables

	2010 US\$'000	2009 US\$'000
Current assets:		
Other receivables	1,272	17
Total trade and other receivables	1,272	17

The fair value of receivables is not significantly different from their carrying value.

10. Cash and cash equivalents

	2010 US\$'000	2009 US\$'000
Cash at bank and in hand	38,068	15
	38,068	15

The Group's cash and cash equivalents balances may be analysed by currency as follows:

	2010 US\$'000	2009 US\$'000
US dollars	37,906	3
Mozambique meticaís	162	12
	38,068	15

Where possible cash is deposited in floating rate deposit accounts at reputable financial institutions with high credit ratings.

11. Loans and borrowings

	2010 US\$'000	2009 US\$'000
Current loans and borrowings		
Shareholder loan	–	5,042
Total loans and borrowings	–	5,042

The shareholder loan was provided by Tete Coal Holdings Limited, and was capitalised as equity during 2010 (note 20).

12. Trade and other payables

	2010 US\$'000	2009 US\$'000
Other payables	1,371	154
Other taxation and social security	791	746
Accruals and deferred income	268	55
	2,430	955

Included within other payable is US\$500,000 (2009: nil) in respect of Dos Santos Put Option, note 16.

Included within other taxation and social security is US\$402,218 (2009: US\$700,000) in respect of withholding tax payable in Mozambique.

The fair value of payables is not significantly different from their carrying value.

13. Share capital

Number of shares	2010	2009
Allotted, called up and fully paid		
Ordinary Shares of no par value	119,857,334	1,000

	Shares issued number	Share capital US\$'000	Share premium US\$'000
At 1 January 2010	1,000	1	3,528
Division and reclassification of Ordinary Shares	79,999,000	3,528	(3,528)
Issue of shares	29,145,928	48,512	–
Issue of shares – Employee long-term incentive scheme	6,700,000	–	–
Capitalisation of shareholder loans	4,011,406	7,204	–
At 31 December 2010	119,857,334	59,245	–
	Shares issued number	Share capital US\$'000	Share premium US\$'000
At 1 January 2009 and 31 December 2009	1,000	1	3,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14. Reserves

The following describes the nature and purpose of each reserve within owners' equity.

Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Foreign currency translation reserve	Gains/losses arising on retranslating the net assets of overseas operations into US dollars.
Other reserves	Equity element of Dos Santos Put and Call Options.
Retained earnings	Cumulative net gains and losses less distributions made.

15. Share-based payments

Long-term incentive plan

Share awards are granted to employees and Directors on a discretionary basis and the remuneration committee will decide whether to make share awards under the LTIP at any time. At 31 December 2010 the following share awards were outstanding:

Year of grant	Number of options shares	Start date	Vesting date	End date	Exercise price per share
2010	2,800,000	27.05.10	27.05.10	26.05.20	Nil
2010	800,000	27.05.10	27.05.10	26.05.20	25c
2010	1,000,000	10.06.10	30.09.11	09.06.20	Nil
2010	1,000,000	10.06.10	30.09.12	09.06.20	Nil
2010	83,333	11.06.10	10.06.11	10.06.20	123p (179.58c)
2010	83,333	11.06.10	10.06.12	10.06.20	123p (179.58c)
2010	83,333	11.06.10	10.06.13	10.06.20	123p (179.58c)
2010	50,000	15.06.10	10.06.11	14.06.20	123p (179.58c)
2010	50,000	15.06.10	10.06.12	14.06.20	123p (179.58c)
2010	50,000	15.06.10	10.06.13	14.06.20	123p (179.58c)
2010	600,000	30.12.10	30.09.11	29.12.20	130.5p (201.08c)
2010	100,000	30.12.10	30.09.12	29.12.20	143p (220.34c)

The Company's mid-market closing share price at 31 December 2010 was 200.5p (31 December 2009: Nil). The highest and lowest mid-market closing share prices during the year were 200.5p (2009: Nil) and 125.5p (2009: Nil) respectively.

During the year 2,800,000 share awards were issued with a nil exercise price and vested on date of grant. The full fair value on the date of grant has been charged to the Income Statement.

A further 2,000,000 share awards were issued with a nil exercise price and vesting conditions are dependent on meeting certain market conditions. The fair value at date of grant was determined using a probability of meeting the market conditions.

The fair value of the remaining 1,900,000 share awards granted under the Group's LTIP has been calculated using the Black-Scholes model. The following principal assumptions were used in the valuation:

Grant date	Note	Share price at date of grant	Exercise price per share	Volatility	Period likely to exercise over	Risk-free investment rate	Fair value
27.05.10		132.44c	25c	53.50%	5 years	2.75%	107.10c
11.06.10		179.58c	179.58c	53.50%	5 years	2.75%	88.50c
15.06.10		179.58c	179.58c	53.50%	5 years	2.75%	88.50c
30.12.10	1	301.24c	201.08c	33.86%	5 years	2.26%	139.40c
30.12.10	1	301.24c	220.34c	33.86%	5 years	2.26%	129.68c

1. Additional probabilities of meeting market conditions are attached to these share awards.

The volatility of 53.50% was calculated using the share price of a similar company with coal assets in Mozambique. The volatility of 33.86% was calculated using the Company's own share price.

Based on the above fair values, the expense arising from equity-settled share options made to employees and directors was US\$5.9m for the period (2009: Nil).

16. Derivative financial asset

The late Denis Pereira Dos Santos was the registered owner of the 12,189,474 Ordinary Shares of the Company.

On 24 May 2010 the Company entered into a Put and Call option agreement with Rogerio Dos Santos (in his capacity as executor and heir to the estates of certain members of the Dos Santos family) and Roberto Dos Santos (in his personal capacity and as heir to the estates of certain members of the Dos Santos family).

Pursuant to this agreement Rogerio Dos Santos granted the Company a call option in relation to the Dos Santos Shares in the Company. The call option can be exercised in whole or in part by the Company at any time or times during the option period which starts on the date on which a court order is made for re-sealing of the South African letters of executorships of the estate of Dos Santos occurs in the BVI until later of: i) the date which is 12 months from the Company's admission to AIM; and ii) the date which is three months from the date on which the Company is notified that the re-sealing of the letter of executorships in respect of the estate of Dos Santos in the BVI has occurred.

Further, the Company granted Rogerio Dos Santos a put option in respect of such number of the Dos Santos Shares, which when aggregated with all of the Dos Santos Shares bought back by the Company in respect of any exercise of the call option, equal to the value of US\$500,000. No exercise of the put option, which when aggregated with all exercises of the call option, shall result in Rogerio Dos Santos receiving an amount in excess of US\$500,000.

The option price per Dos Santos share under the put option and call option is equal to the placing price less 10%, which is equal to 110.7p.

On 20 October 2010 the Company was notified that the re-sealing of the letter of executorships in respect of the estate of Dos Santos in the BVI has occurred.

On 20 January 2011 the Company exercised its call option and bought back all the 12,189,474 Ordinary Shares held by Dos Santos Family (note 22).

As the call option is priced in pound sterling whilst the functional currency of the Company is US dollars it is treated as a derivative financial asset with corresponding increase in equity, and is accounted for at fair value through profit and loss.

The fair value of the derivative financial asset has been calculated using the Black-Scholes model with the following principal assumptions used in the valuation:

	Initial recognition	At 31 December 2010
Share price on issue of loan notes	123.00p	200.50p
Strike price	110.70p	110.70p
Volatility	54%	34%
Risk-free investment rate	1.50%	1.50%
Fair value	35.18p	89.90p
		\$'000
Market value at 31 December 2010		38,161
Payable to Dos Santos family		(21,057)
Value of derivative at 31 December 2010		17,104
Value recognised on inception		(5,791)
Value on recognition of the put option		(500)
Gain on revaluation of derivative		10,813

During the year a gain of US\$10,813,000 has been recognised in the Consolidated Income Statement in respect of the fair value movement of the derivative financial asset.

The put option contains an obligation for the Company to purchase its own shares for cash or another financial asset and gives rise to a financial liability for the present value of the redemption amount with a corresponding decrease in equity. Due to a relatively short exercise period of the option the present value of the redemption amount is deemed to be equal to US\$500,000. This amount has been recognised in the Statement of Financial Position within other payables (note 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. Segmental analysis

The Group has two reportable segments:

- Exploration – this segment is involved in the exploration of coal within the Group's licence areas in Mozambique.
- Corporate – this segment comprises head office operations and the provision of services to Group companies.

The operating results of each of these segments are regularly reviewed by the Group's chief operating decision-maker in order to make decisions about the allocation of resources and assess their performance.

The segment results for the year ended 31 December 2010 are as follows:

Income Statement	Exploration US\$'000	Corporate US\$'000	Group US\$'000
For the year ended 31 December 2010			
Segment result before and after allocation of central costs	(903)	(10,316)	(11,219)
Finance expense	–	(19)	(19)
Finance income	–	10,855	10,855
Loss before taxation	(903)	520	(383)
Taxation	–	(106)	(106)
Loss for the year	(903)	414	(489)

The segment results for the year ended 31 December 2009 are as follows:

Income Statement	Exploration US\$'000	Corporate US\$'000	Group US\$'000
For the year ended 31 December 2009			
Segment result before and after allocation of central costs	(9)	(798)	(807)
Interest expense	–	–	–
Interest income	–	–	–
Loss before taxation	(9)	(798)	(807)
Taxation	–	–	–
Loss for the year	(9)	(798)	(807)

Other segment items included in the Income Statement are as follows:

Income Statement	Exploration US\$'000	Corporate US\$'000	Group US\$'000
For the year ended 31 December 2010			
Depreciation charged to the Income Statement	(56)	(36)	(92)
Share-based payments	–	(5,864)	(5,864)
Income tax expense	–	(106)	(106)

Income Statement	Exploration US\$'000	Corporate US\$'000	Group US\$'000
For the year ended 31 December 2009			
Depreciation charged to the Income Statement	–	(20)	(20)
Share-based payments	–	–	–
Income tax expense	–	–	–

The segment assets and liabilities at 31 December 2010 and capital expenditure for the year then ended are as follows:

Statement of Financial Position	Exploration US\$'000	Corporate US\$'000	Group US\$'000
At 31 December 2010			
Segment assets	13,577	58,395	71,972
Segment liabilities	(658)	(1,878)	(2,536)
Segment net assets	12,919	56,517	69,436
Property plant and equipment capital expenditure	1,923	39	1,962
Exploration capital expenditure	5,078	–	5,078

The segment assets and liabilities at 31 December 2009 and capital expenditure for the year then ended are as follows:

Statement of Financial Position	Exploration US\$'000	Corporate US\$'000	Group US\$'000
At 31 December 2009			
Segment assets	7,929	599	8,528
Segment liabilities	(798)	(5,199)	(5,997)
Segment net assets/(liabilities)	7,131	(4,600)	2,531
Property plant and equipment capital expenditure	1	33	34
Exploration capital expenditure	2,277	-	2,277

18. Financial instruments

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group from which financial instrument risk arises, are as follows:

	2010 US\$'000	2009 US\$'000
Loans and receivables at amortised cost		
Trade and other receivables	1,272	17
Cash and cash equivalents	38,068	15
Financial assets at fair value through profit and loss		
Derivative financial asset	17,104	-
Financial liabilities held at amortised cost		
Trade and other payables	1,371	154
Borrowings	-	5,042

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and retains ultimate responsibility for them.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk arises principally from the Group's investments in cash deposits.

The Group holds its cash balances with two different banks in Guernsey, London and Mozambique. The Group seeks to deposit cash with reputable financial institutions with strong credit ratings.

Liquidity risk

Liquidity risk arises from the Group's management of working capital.

The Board receives cash flow projections on a monthly basis as well as information on cash balances.

Maturity analysis

	Total US\$'000	On demand US\$'000	In 1 month US\$'000	Between 1 and 6 months US\$'000	Between 6 and 12 months US\$'000	Between 1 and 3 years US\$'000
2010						
Trade and other payables	1,371	-	1,371	-	-	-
Borrowings	-	-	-	-	-	-
2009						
Trade and other payables	154	-	154	-	-	-
Borrowings	5,042	5,042	-	-	-	-

The Group endeavours to match the maturity of its current assets with its current liabilities to mitigate liquidity risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. Financial instruments continued

Market risk

The Group does not currently sell any coal. As such there is no specific market risk at the date of this report. However, there is a long-term market risk associated with the project as a whole whereby a drop in coal prices below expected levels may have effect in the viability of the project.

Interest rate risk profile and maturity analysis of financial liabilities

Note 16 provides an analysis of the Group's financial liabilities.

Currency risk

The Group is exposed to currency risk through its activities in Mozambique due to certain costs arising in Mozambique Meticaís, whilst the functional currency is US dollars. The Group has no formal policy in respect of foreign exchange risk, however, it reviews its currency exposures on a monthly basis. Currency exposures relating to monetary assets held by foreign operations are included within the Group Income Statement. The Group also manages its currency exposure by retaining the majority of its cash balances in US dollars, being a relatively stable currency.

A 5% appreciation in the value of the US dollar against the Meticaís and pound sterling will increase net assets by US\$69,156 (2009: US\$35,000).

Currency exposures

In so far as is possible the Group manages its foreign currency exposures by minimising cross currencies and retaining cash balances in US dollars.

	2010 US\$'000		2009 US\$'000	
	Assets/(liabilities) held		Assets/(liabilities) held	
	GBP	MZN	GBP	MZN
US dollars functional currency	517	866	(77)	(743)
	517	866	(77)	(743)

Borrowing facilities

The Group had no undrawn committed borrowing facilities available at 31 December 2010 (2009: Nil).

Fair value

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates and by applying year end exchange rates.

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values.

Fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Level 3 fair value measurements at 31 December

	Derivative financial asset	
	2010 US\$'000	2009 US\$'000
Opening balance	–	–
Additions	6,291	–
Net gains recognised in income statement	10,813	–
Closing balance	17,104	–

19. Contingent liabilities

Inherent uncertainties in interpreting tax legislation

The Group is subject to uncertainties relating to the determination of its tax liabilities.

The tax system and tax legislation in Mozambique have been in force for only a relatively short time and may be subject to frequent changes and varying interpretations. The Directors' interpretations of such legislation in applying it to business transactions of the Group may be challenged by the relevant tax authorities and, as a result, the Group may be assessed on additional tax payments including fines, penalties and interest charges, which could have a material adverse effect on the Group's financial position and results of operations.

The Directors believe that the Group is in substantial compliance with tax legislation and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional tax liabilities will arise in excess of those recognised in the financial statements. However, due to the reasons set out above, the risk remains that the relevant Government authorities may take a differing position with regard to the interpretation of contractual provisions or tax legislation. The resulting effect of this matter is that significant additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

20. Related party transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships with whom the Group entered into transactions or had balances outstanding at 31 December 2010 and 31 December 2009 is determined by management as transactions where the Group has the ability to control the decisions taken by management of the related parties through the Group's shareholders. All companies were classified as "other related parties" according to requirements of IAS 24.

Artemis Corporate Services Limited ("ACSL")

Artemis Trustees Limited ("ATL") is the parent company of ACSL, and was a director of the Company until May 2010. During the year ATL provided corporate and administrative services to the Group amounting to US\$172,305 (2009: US\$27,000). The balance outstanding at 31 December 2010 was US\$84,646 (2009: Nil).

Tete Coal Holdings Limited ("TCHL")

On 10 June 2010 TCHL distributed its holding in the Company to its shareholders and no longer holds an investment in the Company. Prior to 10 June 2010 TCHL held an 85% investment in the Company and had a number of common directors with the Company.

A loan agreement dated 6 May 2009 was entered into between TCHL and the Company. The purpose of the loan facility was to fund directly or indirectly mining, prospecting and exploration operations in respect to prospecting and exploration licences 804L, 805L, 1314L and 1315L in the Republic of Mozambique. During the year a total of US\$2,162,709 (2009: US\$5,040,974) was drawdown under this facility.

On 10 June 2010 the total loan value of US\$7,203,684 was converted into 4,011,406 Ordinary Shares in the Company.

Strata Limited ("Strata") – relationship agreement

A relationship agreement dated 3 June 2010 ("Relationship Agreement") between the Company and Strata was executed to regulate the ongoing relationship between the Company and Strata. The principal purpose of the Relationship Agreement is to ensure that the Company is capable of carrying on its business independently of Strata and its subsidiary undertakings ("Strata Group") and that transactions and relationships with the Strata Group are at arm's length and on normal commercial terms. The Relationship Agreement will continue for so long as the Ordinary Shares are admitted to trading on AIM and Strata owns or controls in aggregate 15 per cent or more of the issued shares or voting rights of the Company.

As at 31 December 2010 Strata held 45.30% of the Company.

Strata Group Services Limited

In December 2009 the Group entered into a short-term lease expiring in June 2011, with Strata Group Services Limited, a subsidiary of Strata for offices in London, United Kingdom. The annual rent for these offices is US\$123,242 (equivalent £79,650).

MMDN Financial Services LLP ("MMDN")

During the year MMDN a firm which Manish Kotecha is a partner charged the Company US\$81,483 (2009: US\$10,530) in respect of financial services. The balance outstanding at 31 December 2010 was US\$8,665 (2009: Nil).

Mines Value Management

During the year US\$35,975 (2009: Nil) was paid to Mines Value Management in respect of services provided by Nigel Sutherland. There was no balance due at 31 December 2010 (2009: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. Lease commitments

Operating lease commitments – minimum lease payments

Zambezi Energy Corporation Limitada administration office

In December 2009 the Group entered into a five year lease for offices in Tete, Mozambique. The annual rent for these offices is US\$62,000.

Ncondezi Services (UK) Limited administration office

In December 2009 the Group entered into a short-term lease expiring 2 June 2011, with Strata Group Services Limited, a subsidiary of Strata Limited for offices in London, United Kingdom. The annual rent for these offices is US\$123,242 (£79,650).

Future minimum lease payments under non-cancellable operating leases as at 31 December 2010 are as follows:

	2010 US\$'000	2009 US\$'000
Within one year	127	191
After one year but not more than five years	260	302
Minimum lease payments	387	493

22. Events after the reporting date

Share issue

On 13 January 2011 the Company issued 12m new Ordinary Shares of no par value. The shares were placed with investors at a price of 195p each. The placing price is equivalent to a 4.4% discount to the closing mid-market price on the AIM market on 12 January 2011. The gross proceeds received were US\$36.5m (£23.4m).

Dos Santos put/call option

Prior to its IPO in June 2010, the Company entered into an option agreement to repurchase 12,189,474 shares held by the Dos Santos family at a 10% discount to the IPO price within one year of the IPO. The IPO was undertaken at a price per share of 123p thereby setting the option exercise price at 110.7p, which represents a 46% discount to the closing mid-market price of 204p on AIM on 12 January 2011.

The Company used approximately US\$21.3m of the funds raised in January 2011 to repurchase the 12,189,474 Dos Santos family shares. The Company subsequently cancelled the repurchased shares.

Exercise of warrants

In June 2011 the Company announced it had issued 1,447,822 new Ordinary Shares of no par value in the Company, to Liberum Capital Limited and Renaissance Capital Limited, of 723,911 new Ordinary Shares each, following their election to exercise warrants granted to them pursuant to a warrant deed dated 8 June 2010. The warrants had an exercise price of 123p per new Ordinary Share.

Following the issue and allotment, the Company's issued share capital will comprise 121,115,683 Ordinary Shares of no par value each.

COMPANY INFORMATION

Directors	Graham Mascall (Chief Executive Officer) Richard Stuart (Non-Executive Chairman) Estevão Pale (Non-Executive Director) Nigel Sutherland (Non-Executive Director) Colin Harris (Non-Executive Director) Mark Trevan (Non-Executive Director)
Company Secretary	Elysium Fund Management Limited
Registered office	2nd Floor Wickham's Cay II PO Box 2221 Road Town Tortola British Virgin Islands
Company number	1019077
Nominated Advisor and Joint Broker	Liberum Capital Limited Ropemaker Place Level 12 25 Ropemaker Street London EC2Y 9AR
Joint Broker	Renaissance Capital Limited One Angel Court Cophall Avenue London EC2R 7HJ
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Registrar	Computershare Investor Services (BVI) Limited Woodbourne Hall PO Box 3162 Road Town Tortola British Virgin Islands
Legal Advisor to the Company as to BVI law	Ogier LLP 41 Lothbury London EC2R 7HF
Legal Advisor to the Company as to English law	Berwin Leighton Paisner LLP Adelaide House London Bridge London EC4R 9HA

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