NCONDEZI COAL COMPANY

ANNUAL REPORT AND FINANCIAL STATEMENTS 2011

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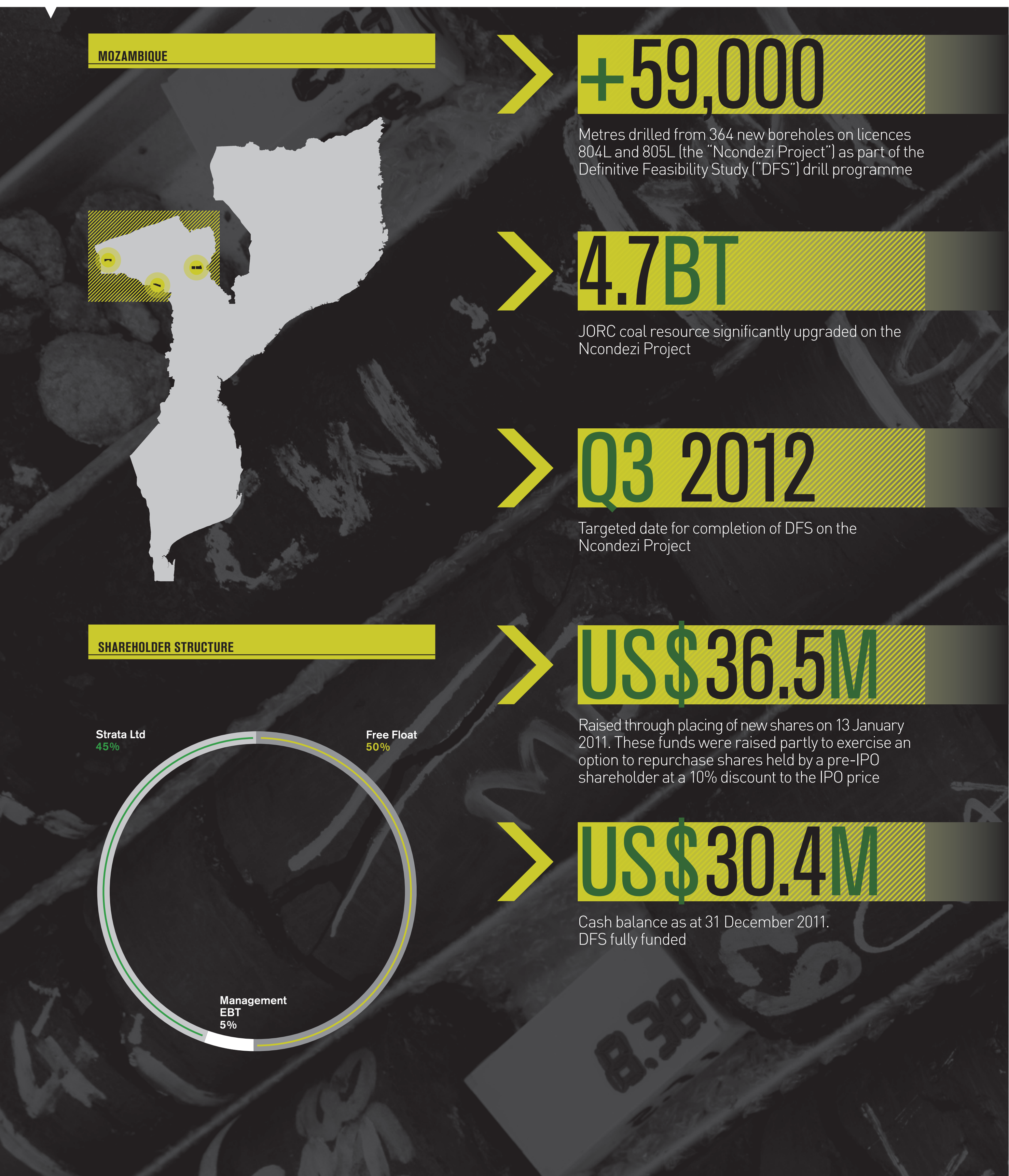
NCONDEZI IS A COAL EXPLORATION AND DEVELOPMENT COMPANY WITH TWO COAL EXPLORATION LICENCES IN THE TETE PROVINCE IN NORTH WEST MOZAMBIQUE.

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.

HIGHLIGHTS



MOZAMBIQUE

SHAREHOLDER STRUCTURE

+59,000

Metres drilled from 364 new boreholes on licences 804L and 805L (the "Ncondezi Project") as part of the Definitive Feasibility Study ("DFS") drill programme

4.7BT

JORC coal resource significantly upgraded on the Ncondezi Project

Q3 2012

Targeted date for completion of DFS on the Ncondezi Project

US$36.5M

Raised through placing of new shares on 13 January 2011. These funds were raised partly to exercise an option to repurchase shares held by a pre-IPO shareholder at a 10% discount to the IPO price

US$30.4M

Cash balance as at 31 December 2011. DFS fully funded

AT A GLANCE

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.

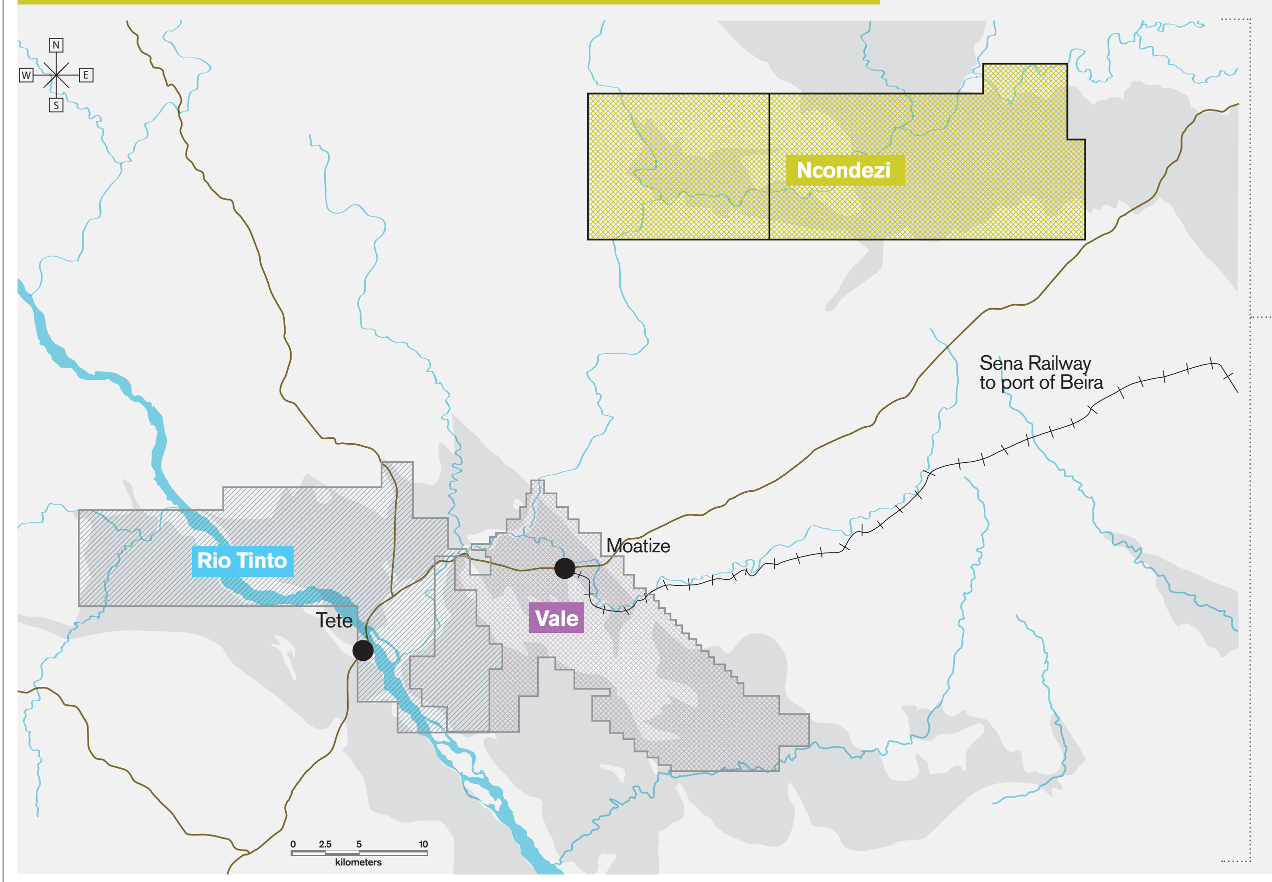
The Ncondezi Project is located approximately 30km from Vale S.A.'s ("Vale") US$4.0bn Moatize coal project and Rio Tinto Group's ("Rio Tinto") Benga coal project in an area just east of the city of Tete.

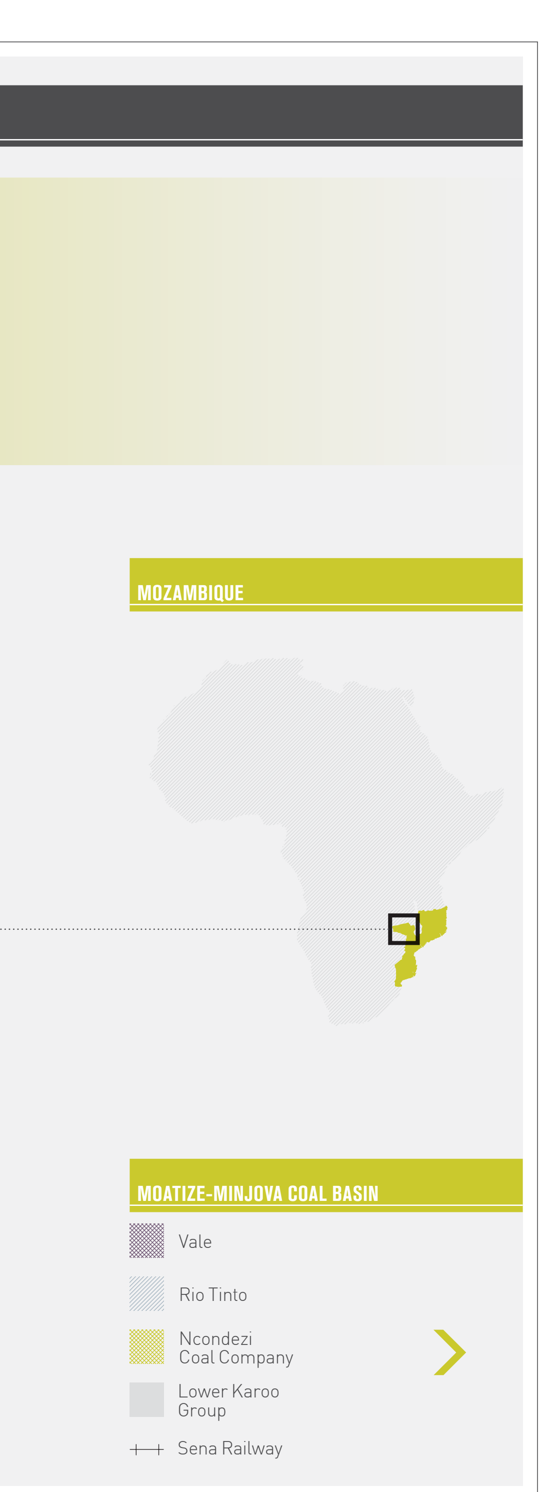
Exploration to date has confirmed the potential for both export quality thermal and coking coals to be produced from projects in the region.

NCONDEZI PROJECT LICENCE LOCATIONS

MOZAMBICAN COAL POTENTIAL

Coal development to date has been concentrated around the towns of Tete and Moatize in the Tete Province in north west Mozambique





+4.7BT

JORC coal resource classified on whole project area

+70Mtpa

Potential coal exports from Mozambique by 2025

Significant infrastructure projects underway to address transport capacity bottlenecks

THE NCONDEZI PROJECT

The Ncondezi Project is a potential large scale open pit mine capable of producing export quality thermal coals. Ncondezi is in the process of completing a DFS together with a comprehensive environmental and social impact assessment study ("ESIA") on the Ncondezi Project, which are both targeted for completion in Q3 2012.

During the 2011 financial year, all the necessary DFS drilling and associated test work was completed and an updated JORC resource of 1.7Bt was classified in December 2011 from three of six coal blocks. Post the period-end, the Company announced a significant increase in resource to 4.7Bt comprising a resource statement from all six coal blocks at the Ncondezi Project. The resource upgrade puts the project on par with the largest coal deposits in Mozambique currently in the hands of some of the world's major coal mining companies.

Following completion and approval of the DFS, Ncondezi expects first coal production at the Ncondezi Project to be achieved during 2015.

SIGNIFICANT EXPORT POTENTIAL

First exports of coal began in Q3 2011 on the recently refurbished Sena Railway, which lies 10km from the Ncondezi Project and runs 575km to the port of Beira. The existing rail transport capacity is approximately 5.5Mtpa however, potential coal production from projects at Ncondezi, Vale, Rio Tinto and others in the area could result in over 70Mtpa of coal export capacity demand by 2025.

A number of transport infrastructure solutions are now being planned to upgrade existing and construct new transport infrastructure to meet these coal export requirements in Mozambique.

As a result, project and infrastructure spend on coal in Mozambique could reach over US$20bn by 2020.

CHAIRMAN'S STATEMENT

2011 was a year of steady progress towards developing the Ncondezi Project into a coal-producing business. At year end, the 59,000m drilling campaign for the DFS was completed on schedule, negotiations for access to export routes were ongoing, optimisation work to get the most efficient mining operation commenced and significant progress was made in assessing power generation uses for non-export grade coals.

> MOZAMBICAN COAL STORY

HEATING UP

Post the year end progress has continued; the total resource at the Ncondezi Project was increased from 1.7Bt up to 4.7Bt, an infrastructure agreement was signed with Rio Tinto and Minas de Revuboe ("Revuboe") which provides potential long-term access for coal production to be transported on a new greenfield rail and port corridor.

Throughout this period the Group has enjoyed support of the Mozambican Government, nationally and regionally, as well as from the local people.

All the various work streams that will be pulled together for the DFS are on track. The DFS drilling campaign, completed during 2011, marked the commencement of updating the Project's resource model. Following resource upgrades at the North, Central and South Blocks in late 2011, the Company announced a total resource statement in Q1 2012 that showed a 157% increase in total resource including a 108% increase in resources classified in the indicated category. Having an independently verified resource of 4.7Bt puts the Ncondezi Project on par with the mines operated by the coal majors and is larger than the Benga Project at the time of Rio Tinto's acquisition of Riversdale in December 2010.

Of critical importance to the success of the Ncondezi Project, the Group has made significant inroads into addressing the major infrastructure issues that confront most mining projects. In January 2012, the Group signed an agreement with Rio Tinto and Revuboe to further study greenfield port and rail options and related infrastructure under the Integrated Transport Development ('ITD') Project. This followed the successful completion of the jointly funded order of magnitude infrastructure study in November 2011 which identified a preferred rail and port solution that all three companies believe is the best solution for the development of the Zambezi Coal Basin. The ITD Project is intended to be a large scale multi-user transport corridor, and the new agreement entitles Ncondezi to export allocation for all of its potential export coal production at the Ncondezi Project on fair commercial terms. Rio Tinto will lead the necessary study work required to determine the feasibility of the ITD Project, and is a global player with the capital depth and experience to make it work.

Furthermore, the Group is making large strides in easing the region's forecast power requirements. In December, the Company announced the potential to use middlings and low volatile coals, previously regarded as waste product, in local power generation and coal gasification. Additional feasibility work is required, but the first indications for the use of either boiler or gasifier technology are extremely positive. This would improve the overall product yields on run of mine coal production, providing additional revenues at the Ncondezi Project.

The foundations are now in place for a successful DFS to be completed and for the Group to prepare for a scalable coal mining operation. Having these foundations in place is a testament to the hard work of each employee, from the drillers, geologists, to the community liaisons. The rapid rate of progress that the Group has made is a result of their dedication to the long-term viability of this project.

The reconnaissance drill programmes were completed on licences 1314L and 1315L. Analysis of the results indicates that, although coal was identified on both licences, there is little or no potential for economic coal resources. Consequently, the Group has decided not to pursue further evaluation work on these licences and has relinquished them to the Ministry of Mineral Resources Mozambique.

We look forward to a successful 2012 with the completion of the DFS being the major milestone for the forthcoming year. Also, the Board looks forward to increased value accretion as a result of a number of further initiatives, including a developing power story and continued work as part of the ITDP with Rio Tinto and Revuboe.

Richard Stuart
Non-Executive Chairman

KEY MILESTONES

JAN 2011
- Placing of US$36.5m
- 5% strategic Chinese partner investment

SEP 2011
- Completion of DFS drilling
- Completion of order of magnitude greenfield rail and port study

DEC 2011
- Completion of Phase I power study
- Completion of Phase I coal gasification study
- Interim resource update

UP AND COMING OBJECTIVES

2012
- **Q1 2012** Infrastructure agreement signed with Rio Tinto
- **Q1 2012** Additional resource updates
- **Q2 2012** Update on coking coal potential
- **Q2 2012** Coal gasification burn tests completion
- **Q3 2012** Completion of Phase II power study

Q3 2012 DFS COMPLETION
- **Sep 2012** ESIA completion
- **H2 2012** Mining licence application
- **H1 2013** Initiate mine construction
- **H1 2015** First coal production

OPERATIONS REVIEW

NCONDEZI PROJECT JORC COAL RESOURCE

Block	Coal Type	TTIS (Mt) Indicated	TTIS (Mt) Inferred	TTIS (Mt) Total	MTIS (Mt) Total
South	High Vol	241	113	355	333
	Low Vol	363	131	494	477
	Total South	605	244	849	810
North	High Vol	133	242	374	324
	Low Vol	27	59	86	72
	Total North	159	301	460	396
East	High Vol	183	115	298	282
	Low Vol	283	135	418	408
	Total East	465	250	716	690
Central	High Vol	109	422	530	422
West	High Vol	–	1,203	1,203	1,140
River	High Vol	–	898	898	612
Total		**1,338**	**3,317**	**4,655**	**4,071**

Notes to table:

- Indicated resources are defined where borehole spacing is approximately 500 metres. Extrapolation of these areas is limited to approximately 250 metres
- Inferred resources are defined where borehole spacing is approximately 2000 metres. Extrapolation of these areas is limited to approximately 1000 metres
- TTIS (Total Tonnes in-situ) for high and low volatile coals are calculated from GTIS tonnage by applying Geological Losses. Losses applied were generally 10% for Indicated resources and 15% for Inferred resources. In the Central Block, these were increased to 15% and 20% respectively to account for interpreted dykes that were not modelled
- MTIS (Mineable Tonnes in-situ) represent TTIS resource which exists above a depth cut-off of 250m
- "Low Volatile" coals, with volatiles 10% or less have been devolatilised by igneous intrusions. Studies by Ncondezi indicate that these coals may be economic

NCONDEZI LICENCE LOCATIONS

NCONDEZI PROJECT

EXPLORATION SUMMARY

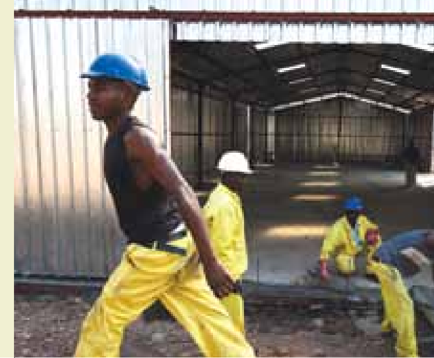
During the financial year, The Mineral Corporation (Pty) Ltd ("TMC"), based in Johannesburg, South Africa, was mandated to provide technical supervision over the drill programmes, and conduct the geological modelling and resource estimates for the Ncondezi Project. Based on the findings attained during the 2010 drill programme, an extensive drill programme was conducted in 2011 resulting in a total meterage of 39,333m being drilled. The DFS drill programme concluded in September 2011 and identified six discrete resource blocks within the Ncondezi Project area that contained coal at depths amenable to opencast mining. These blocks were identified as North, South, Central, East, West and River blocks.

Incorporating the newly acquired data from the 2011 drill programme, TMC completed resource estimates for the previously excluded Central Block and updates on the North and South Blocks during the financial period. At the end of the period, the total tonnes in-situ ("TTIS") updated JORC resource for the three blocks is 1.7Bt (TTIS), with 854Mt classified in the Indicated category, and 859Mt classified in the Inferred category. Coal zones occur at or near the surface on all three coal blocks and more than 1.5 billion mineable tonnes in-situ ("MTIS") of the updated coal resource estimate occurs at depths of less than 250m below surface and is considered potentially mineable by opencast mining methods. Following further updates post the reporting period, resource estimates for the East, West and River blocks were completed increasing the total resource by 157% to 4.7Bt as reported on 20 March 2012. This resource will form the basis of the DFS study.

Based on initial washability analyses to date, potential coal products after beneficiation from the Ncondezi Project include:

- An export thermal coal with a calorific value of 26.3 MJ/kg (6,280 kcal/kg) (air dried);
- A domestic thermal coal product consisting of a high to low volatile matter with a minimum calorific value of 17 MJ/kg (4,060 kcal/kg) (air dried); and
- There is also potential to produce a low ash coking coal product, yet to be determined and the Company will provide an update on this in due course.

Trade off studies are being undertaken to investigate the economic impact of producing a lower grade product for export.



OPERATIONS REVIEW
CONTINUED

PERCUSSION DRILLING

As part of the 2011 drill programme, which commenced on licence 805L in January 2011 and on Licence 804L in March 2011, the Group began drilling new percussion boreholes on a grid across the licence areas. The objectives of the drill programme were to:

- Drill infill boreholes in the South Block on a 500m x 500m grid in order to improve coal zone correlations and reclassify the resource;
- Drill reconnaissance boreholes in the East Block on a 2km x 2km grid in order to identify further areas of potential coal deposition;
- Drill infill boreholes in the West Block on a 500m x 500m grid to increase the confidence and understanding of the coal resources in the area; and
- Geophysically log all boreholes.

A total of 64 percussion boreholes were drilled during the programme, with a total meterage of 10,762m. The majority of the boreholes were drilled in the South and East Blocks, but several boreholes were also drilled in the North, North-East and West Blocks.

Drilling chips from percussion boreholes were geologically logged and stored in plastic chip trays, but not analysed. Photographs of the drill chips were also taken and are stored on the geological database for future reference. 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, dip metre and calliper.

CORE DRILLING

As part of the 2011 drill programme approved by TMC, the core drilling focused on drilling Licence 805L and parts of Licence 804L. The objectives of the drill programme were to:

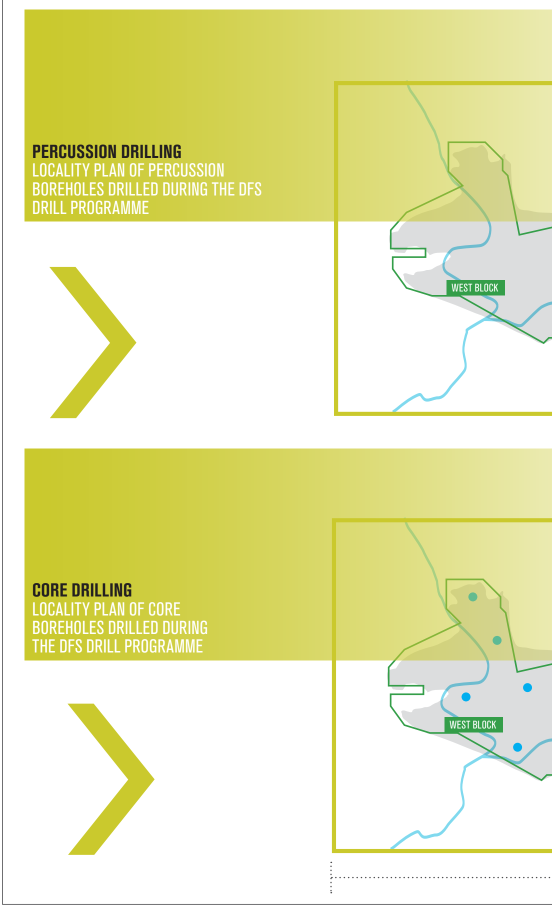
- Drill slim core (HQ^3) boreholes on a 500m x 500m offset grid, focusing the drilling on the known coal resources of the South, North and Central Blocks and the lesser known resources of the East Block, and any new areas identified by 2km centred percussion drilling;
- Drill two large diameter boreholes in the South Block for the purpose of acquiring sample material for specialised testing; and
- Drill four slim core (HQ^3) inclined core boreholes with orientated core for geotechnical purposes.
- All the boreholes would be geophysically logged.

Core drilling commenced in January 2011 and a total of 187 slim core boreholes were drilled during the financial period, resulting in 27,750m. The majority of the boreholes were drilled in the South, East and North Blocks. Two large diameter core boreholes were drilled in the South Block during September 2011, resulting in 204m. These large diameter boreholes produced core with a diameter of 203mm and bulk samples were obtained for specialised testing for power generation and gasification. Between August and September 2011, four slim core inclined boreholes were drilled for the purpose of geotechnical logging and sampling, resulting in 616m. The boreholes were drilled in the North, East, South and Central Blocks at an inclination of 70° from horizontal and the drill core was orientated.

All cored boreholes were geophysically logged by an independent contractor, utilising a full suite of sondes. Boreholes were geologically logged and sampled by the Group's team of geologists. All drill core was photographed and photographs were stored in the geological database for future reference.

COAL SAMPLING AND ANALYSES

The Group conducted a coal sampling programme for the 187 slim core boreholes and two large core boreholes drilled during 2011, resulting in a total of 3,690 coal samples being retrieved and analysed. After the core was logged at the drill rig, it was transported back to

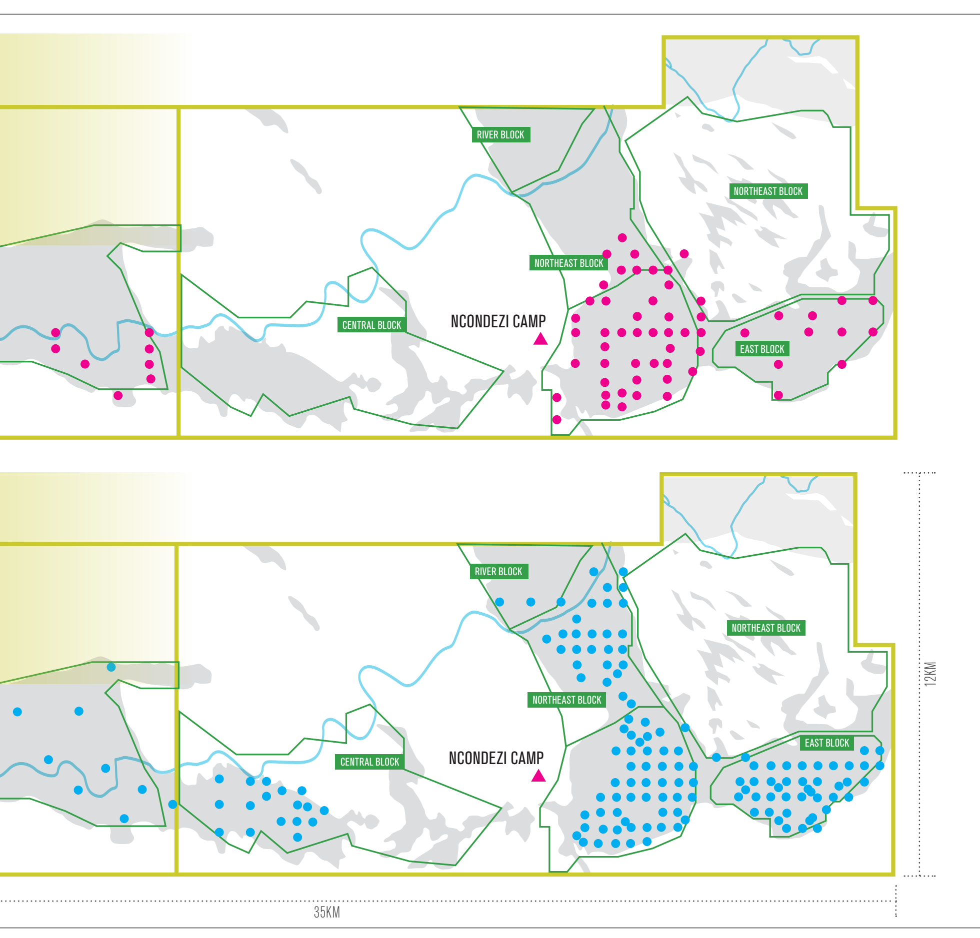


exploration camp and coal intersections placed in a refrigeration unit to await sampling. The geological logs were audited and then depth corrected using the down-hole geophysical logs and from this, coal sample intervals were identified. Retrieved samples were weighed on-site, boxed and stored in refrigerated units whilst awaiting transport to a laboratory. All the samples were transported by a refrigerated truck to a laboratory in South Africa. Due to the volume of samples produced during the 2011 drill programme, three accredited laboratories were utilised to attain the required turnaround times.

ROAD ACCESS

During 2011, the Group contracted an independent contractor to provide

Covered by the DFS drill programme



machinery and crew for all road building requirements. A total of 40km of existing roads was maintained and an additional 257 borehole sites with connecting access roads were constructed within the licence areas.

SITE INFRASTRUCTURE

Construction of the Group's exploration camp began during Q3 2010, to provide accommodation and necessary infrastructure for the majority of the exploration team onsite. The main camp construction was completed towards the end of January 2011 and additional structures were constructed during the financial year. These included, a refrigerated core shed, vehicle ramp and wash bay, and five single bedroom units.

OTHER LICENCES

In 2011, reconnaissance drill programmes were completed on licences 1314L and 1315L, which are located to the West and South of the Ncondezi Project, with the aim of identifying coal resources within the licence areas. Between July and October 2011, exploration programmes were completed on both licences 1314L and 1315L with 3 and 15 percussion boreholes drilled respectively on each licence. Analysis of the results indicated that coal potential existed at depth in thin intersections and there was little or no potential for economic coal resources at these licences. Consequently, the Company decided not to pursue further evaluation work on these licences and has relinquished them to the Ministry of Mineral Resources Mozambique.

RESULTS FROM OPERATIONS

Refer to the Financial Review section on pages 12 to 13.

OUTLOOK

The Group commenced a DFS in Q3 2010 and expects to complete the study by Q3 2012. Over the coming months, the Group will continue with the necessary work required to complete the DFS on the licence areas. The mine plan, product specification, coal beneficiation plant design, logistics and other studies to complete the DFS have been commissioned during Q1 2012. During the financial period, Hugh Brown & Associates were commissioned to complete a prefeasibility study for the utilisation of a high ash low volatile middlings feedstock for both gasification and power generation. The study highlighted no fatal flaws and identified the Circulating Fluidised Bed boiler technology as the most suitable to utilise the potential feedstock for power generation. The Group has commissioned Parsons Brinckerhoff in Q1 2012 to conduct a feasibility study for the development of a 3600MW coal fired power plant in the Tete Province of Mozambique.

In January 2012, the Group signed a new agreement with Rio Tinto and Revuboe to further study the ITD Project's greenfield port and rail options, and will be led by Rio Tinto. The ITD Project will help all coal miners in the Tete Province as it will be multi-user, and is also expected to bring significant benefits to the people and businesses in Zambezia Province, as well as the broader Mozambican Government. The new agreement entitles Ncondezi to export allocation for all of its potential export coal production at the Ncondezi Project on fair commercial terms.

Nigel Walls
Chief Operating Officer

OPERATIONS REVIEW CONTINUED

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

Malawi

NCONDEZI PROJECT

TETE

Mozambique

NCONDEZI PROJECT EXPORT CORRIDORS

NACALA — TARGET FIRST COAL EXPORTS IN 2015

GREENFIELD — TARGET FIRST COAL EXPORTS IN 2016-18

CHINDE — TARGET FIRST COAL EXPORTS IN 2015

BERIA — FIRST EXPORT OF COAL IN Q3 2011

4 MAIN COAL EXPORT OPTIONS

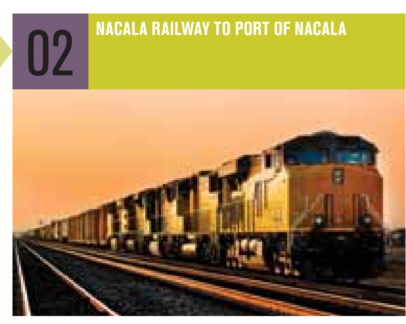
INFRASTRUCTURE

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, transported the first coal shipments from Vale in Q3 2011. The initial coal export capacity of the railway line and port is 5Mtpa, and this capacity has been allocated to Vale and Rio Tinto.

The Mozambican Government is currently looking at ways to expand export capacity up to between 18 and 24Mtpa, which could include the construction of a new coal terminal at Beira. Expansion work is expected to start sometime in 2012/2013 with additional capacity becoming available between 2013 and 2015. The Sena railway line is 10km from the Ncondezi Project and is a potential transport corridor to handle initial 2Mtpa coal production 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 682km of existing railway that runs into Malawi, and the construction of an additional 230km of railway to connect to Moatize near the city of Tete. The port of Nacala is considered to be one of the best natural deep water ports on the East African coast and will be able to handle Handymax, Panamax and Capesize ships.

In November 2011, Vale announced an investment of US$4.4bn to upgrade the railway line and build a new port at Nacala with start-up expected in 2015. The railway line and port will be multi-user, and has an estimated nominal capacity to handle 18 Mtpa of coal once upgraded, with potential to reach 30Mtpa with additional expansions.

Ncondezi has initiated discussions with the Nacala railway and port concessionaire to assess the possibility of securing export allocation.

03 BARGING DOWN THE ZAMBEZI RIVER TO CHINDE AND TRANSHIP

Technical and environmental studies conducted by Rio Tinto have confirmed the economic viability of barging coal down the Zambezi River and transhipping at Chinde. This option has large potential, north of 20Mtpa, but is dependent on the Mozambican Government being satisfied with the results of these studies and granting permits to barge. Further updates on this transport option are expected during the 2012 financial year.

04 THE ITD PROJECT – NEW GREENFIELD RAIL AND PORT

As part of the Group's strategy to identify a long term export solution for its future production of coal, the Group jointly funded an infrastructure order of magnitude study to assess the logistics options available for the large scale export of coal from Tete, with Rio Tinto and Revuboe. The order of magnitude study, part of the ITD Project, looked to identify a preferred expandable rail and port greenfield solution between the existing ports of Beira and Nacala. The Strang-Tradex Group, through its Port and Logistics Business Solutions division, was appointed to conduct the order of magnitude study and delivered a final draft at the end of Q3 2011. The report identified what is believed to be the best solution for the development of the Zambezi Coal Basin with a port located north of the Zambezi river mouth in the Zambezia Province, less than 500km from Tete. The preferred port option would include a deep water port capable of handling up to cape size vessels with expandable capacity from an initial 25Mtpa to 100Mtpa.

FINANCIAL REVIEW

The Group raised US$36.2m through a private placement. Group cash position as at 31 December 2011 was US$30.4m.

RESULTS FROM OPERATIONS

The Group made a loss after tax for the year of US$7.0m compared to a loss of US$0.5m for the previous financial year. The basic loss per share for the year was 5.9 cents (2010: 0.5 cents) and was lower than expected, largely due to the gain on the derivative financial asset resulting from the fair value gain on the Dos Santos call option of US$4.2m (2010: US$10.8m). If the gain on the derivative financial asset was excluded from the loss per share calculation, the loss per share for the year would have been 9.3 cents (2010: 11.3 cents).

Administrative expenses totalled US$11.1m (2010: US$11.2m). This included a share based payments charge of US$2.6m (2010: US$5.9m), an impairment of exploration costs US$0.7m (2010: US$Nil) and research expenses of US$1.3m (2010: US$Nil). Net of the share based payments charge, impairment of exploration costs and research expenses, administrative expenses amounted to US$6.6m (2010: US$5.3m). The comparative increase in 2011 was largely attributable to the fact that the Group was operating on limited cash resources in the first half of 2010, prior to the IPO. Administrative expenses are detailed in note 3.

FUNDRAISING ACTIVITIES

Private placing – US$36.2m (£23.4m)
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 represented a 4.4% discount to closing mid-market price on the AIM market on 12 January 2011. The gross proceeds received were US$36.5m.

The Company used approximately US$20.9m of the funds raised to exercise a call option on 12 January 2011 to repurchase 12.2m shares from the Dos Santos family at 110.7 pence per share ('Option Price'). The Option Price paid represented a 46% discount to the closing mid-market price of 204 pence on AIM on 12 January 2011. The shares repurchased from the Dos Santos family were subsequently cancelled.

Exercise of warrants
In June 2011, the Company's brokers Liberum Capital and Renaissance Capital Limited elected to exercise warrants granted to them on 8 June 2010 at the IPO price of 123 pence. The total number of warrants exercised was 1,447,822 resulting in a cash inflow of US$2.9m (£1.8m).

FINANCIAL POSITION

The Group's statement of financial position at 31 December 2011 and comparatives at 31 December 2010 are summarised below:

	2011 US$'000	2010 US$'000
Non-current assets	**31,155**	15,528
Current assets	**33,423**	56,444
Total assets	**64,578**	71,972
Current liabilities	**3,499**	2,536
Total liabilities	**3,499**	2,536
Net assets	**61,079**	69,436

The movement in non-current assets of US$15.6m was largely due to an increase in intangible assets of US$15m and tangible assets of US$0.6m and resulted from the continued development of the Ncondezi Project.

The decrease in current assets of $23.0m resulted from a decrease in cash and cash equivalents of $7.6m, an increase in trade and other receivables of $1.7m and a decrease in the derivative financial asset of $17.1m as a result of the exercise of the Dos Santos Call option (note 15).

CASH FLOWS

The net cash outflow from operating activities for the year was US$9.3m (2010: US$5.5m).

Net cash used in investing activities was US$15.1m (2010: US$7.1m), including amounts of US$1m for property, plant and equipment (2010: US$2.0m) and US$14.2m on exploration activities (2010: US$5.1m) incurred on the Ncondezi Coal Project.

Net cash generated from financing activities was US$16.8m (2010: US$50.7m) as described under fund raising activities shown above.

The resulting year end cash and cash equivalents held totalled US$30.4m (2010: US$38.1m) of which US$0.4m (2010: US$Nil) was restricted use cash relating to a bank guarantee provided on the Group's corporate offices in London.

OUTLOOK

The Directors have reviewed future cash forecasts, with particular reference to minimum expenditure requirements on licences and the intended work programme to complete the DFS in Q3 2012. The Directors therefore have a reasonable expectation that the Group will have adequate resources to meet its commitments.

Manish Kotecha
Chief Financial Officer

ENVIRONMENTAL & SOCIAL RESPONSIBILITY

This section of the report contains activities that were covered between January and December 2011 under environmental and social development.

SOCIAL RESPONSIBILITY

Social Development Plan ("SDP")
During the financial period, a three-year SDP with a US$2m budget was approved by both the Company and the Government of Mozambique, and a memorandum of understanding ("MoU") was signed with the Ministry of Mineral Resources in December 2011. The SDP is due to be implemented between 2012 and 2015, and the planned corporate social responsibility interventions will benefit the local communities at the Ncondezi Project, the Moatize District and selected other communities in Tete and Mozambique. The specific initiatives to be implemented are currently under final review with the provincial and district government authorities.

SOCIAL PROJECTS

In addition to the social projects planned under the SDP a number of social projects were implemented during the financial period, including:

- a bursary award for four postgraduate Mozambican students;
- donation of bicycle ambulances and carriers to local villagers; and
- repairs to the local rural medical clinic.

Postgraduate Bursary Awards
Four bursary offers were made to four exceptional Mozambican students for postgraduate studies abroad, two in Geology and two in Mining Engineering. The geology students are studying for an MSc in Mining and Geological Engineering at Coimbra University in Portugal. The mining engineering students are in the process of applying for postgraduate studies abroad.

Bicycle Ambulances and Carriers
Twenty bicycle ambulances and 20 bicycle carriers were donated to the local communities and horticultural farmers on the Ncondezi Project licence areas. These are to be used for the transportation of people in medical need to the nearest clinic in Mameme 2. The carriers allow local farmers to carry their produce to the local market place along the main road at Mpassi.

Mameme 2 Rural Clinic
Repair work has been completed at the Mameme 2 Rural Clinic, providing solar power and medicine refrigerator facilities.

MAIZE FIELD COMPENSATION

During the financial period, a total of 214 maize fields affected by exploration access roads were compensated. A total of US$19,323 was paid out in local currency as compensation.

ENVIRONMENT

All sites
An External Environmental Audit was conducted in May 2011 and, whilst the environmental performance of the Company was considered to be good, an Environmental Action Plan has been established to ensure that the Company maintains its high standards.

Standard operating procedures and best practice management plans dealing with environmental issues were developed and implemented for the Company's and its contractors' use throughout the 2011 financial year.

SOCIO-ECONOMIC STUDY

Ncondezi has commissioned an Environmental and Social Impact Assessment ("ESIA") study on the Ncondezi Project to be completed in parallel with the DFS. The ESIA has been designed to meet Mozambique legislation requirements and standards of international best practice. Expected completion of the ESIA is Q3 2012 in line with the DFS.

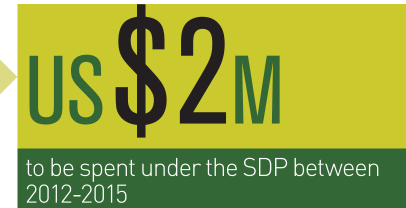
During the 2011 financial year, public consultation meetings on the ESIA process were undertaken in Tete and Moatize with broadly positive responses recorded.

In August 2011, the Environmental Prefeasibility and Scoping Study Report and Terms of Reference for the Ncondezi Project were reviewed and approved by the Ministry for the Co-ordination of Environmental Affairs. This gave the green-light for Ncondezi to proceed with and complete the ESIA.

Following these approvals, environmental baseline studies were completed for:

- Air Quality
- Aquatic Ecology
- Avifauna Ecology
- Groundwater
- Hepatofauna
- Mammalian Ecology
- Noise
- Soils
- Surface Water
- Vegetation

This information will be used to improve environmental performance and assist in government decision making and permitting. Development of the project description is the next critical path on the ESIA programme.



NCONDEZI PROJECT

ENVIRONMENTAL AND SOCIAL DEVELOPMENT

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-sanction era and in the relocation of Gencor (as Billiton plc.) and The South African Breweries Ltd onto the London Stock Exchange.

Graham Mascall
Chief Executive Officer
Graham Mascall has over 40 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 Limited, Barclays Bank, and was Chief Executive Officer of International Molybdenum Limited and Lubel Coal Company (UK) Limited. Mr Mascall 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 AIM listed Gemfields Resources plc., London Mining plc. and NYSE listed Walter Energy Inc.

Estevão Pale
Independent Non-Executive Director
Estevão Pale has more than 30 years' experience in the mining industry. He is the Chief Executive Officer of Companhia Moçambicana 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 Master's 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
Independent Non-Executive Director
Nigel Sutherland has spent over 35 years working in the resource sector, of which the last ten 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 25 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 business development. 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. Mr Sutherland has an MBA from the University of Cape Town and a Bachelor of Engineering (Metallurgy) from the University of Witwatersrand.

Colin Harris
Independent 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
Independent Non-Executive Director
Mark Trevan has over 30 years' experience in the mining and metals sector. He is currently the Managing Director of Australian coking coal producer, Caledon Resources Limited. 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. 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 2011.

Principal activities
The principal activity of the Group is coal exploration.

Business review and future developments
Details of the Group's business and expected future developments are set out in the Chairman's Statement on page 5, the Review of Operations on pages 6 to 11 and in the Financial Review on pages 12 to 13.

Principal risks and uncertainties
The Group operates in an uncertain environment that may result in increased risk, cost pressures and schedule delays. The key risk factors that face the Group and their mitigation are set out on pages 20 to 21.

Additionally, the Group's multi-national operations expose it to a variety of financial risks such as market risk, foreign currency exchange rates and interest rates, liquidity risk, and credit risk. These are considered further in note 17.

Key performance indicators
The key performance indicators of the Group are as follows:

	2011	2010	2009
Exploration expenditure (US$'000)	**14,966**	5,078	2,227
Metres drilled Ncondezi Project	**39,333**	20,653	10,978
Share price at 31 December (pence)	**52.25**	200.5	n/a
Cash at bank at 31 December (US$'000)	**30,044**	38,068	15

Results and dividends
The results of the Group for the year ended 31 December 2011 are set out on page 27.

The Directors do not recommend payment of a dividend for the year (2010: Nil). The loss will be transferred to reserves.

Events after the reporting date
See note 22 for further information.

Financial instruments
Details of the use of financial instruments by the Company, its subsidiary undertakings and financial risk management are contained in note 17 of the financial statements.

Directors and Directors' interests

Director	**Ordinary Shares held 31 December 2011**	Ordinary Shares held 31 December 2010
Richard Stuart	**–**	–
Graham Mascall	**336,130**	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.

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, Graham Mascall and Colin Harris 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 22 to 23.

Ordinary Share Capital
Details of issues of Ordinary Share capital during the year are set out in note 12.

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.

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
20 April 2012

RISK FACTORS

EXPLORATION AND MINING

POTENTIAL IMPACT

The business of exploration for and identification of coal deposits, is speculative and involves a high degree of risk. The coal deposits of any projects owned or acquired by the Group may not contain economically recoverable volumes of coal of sufficient quality or quantity. Even if there are economically recoverable deposits, delays in the construction and commissioning of mining projects or other technical difficulties may make the deposits difficult to exploit.

The exploration and development of any project may be disrupted, damaged or delayed by a variety of risks and hazards which are beyond the control of the Group. These include (without limitation) geological, geotechnical and seismic factors, environmental hazards, technical failures, adverse weather conditions, acts of God and government regulations or delays.

Exploration is also subject to general industrial operating risks, such as environmental hazards, explosions, fires, equipment failure and industrial accidents, which may result in potential delays or liabilities, loss of life, injury, environmental damage, damage to or destruction of property and regulatory investigations. Although the Group intends, itself or through operators, to maintain insurance in accordance with industry practice, no assurance can be given that the Group or the operator of an exploration project will be able to obtain insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims. The Group may elect not to become insured because of high premium costs or may incur a liability to third parties (in excess of any insurance cover) arising from pollution or other damage or injury.

HOW WE MITIGATE IT

Geology

- Conduct comprehensive drill programmes to increase the understanding of the deposit
- Assessment of the optimum borehole spacing to increase the level of confidence
- Structural interpretation of deposit
- Effective management of drill programmes
- Core boreholes preferred over noncore boreholes, to provide an observation point to satisfy both structural and coal quality requirements
- Full suite of analysis conducted on coal samples
- Data acquisition according to best practices
- Geological modelling and resource determination
- The utilisation of down-hole geophysics
- The refrigeration of coal samples to minimise degradation

Environmental

- Detailed hydrological studies
- Environmental baseline and impact studies
- Social baseline and impact studies

Geotechnical

- Detailed geotechnical studies
- Specialised testing of drill core

Equipment

- Regular maintenance of mechanical equipment

ESTIMATING MINERAL RESERVE AND RESOURCE

POTENTIAL IMPACT

The estimation of mineral reserves and mineral resources is a subjective process and the accuracy of reserve and resource estimates is a function of the quantity and quality of available data and the assumptions used and judgements made in interpreting engineering and geological information. There is significant uncertainty in any reserve or resource estimate and the actual deposits encountered and the economic viability of mining a deposit may differ materially from the Group's estimates. The exploration of mineral rights is speculative in nature and is frequently unsuccessful. The Group may therefore be unable to successfully discover and/or exploit reserves.

HOW WE MITIGATE IT

Resources

- Signoff of resources by registered CP
- Reporting of resources are compliant with the JORC code
- Classification of resources into a high level of confidence category
- Conduct detailed geological modelling
- The utilisation of accredited laboratories for the analyses of coal samples
- QA/QC procedures according to best practices

Reserves

- Signoff of reserves by registered CP
- Classification of reserves into proven or probable reserves
- Detailed mine design and scheduling

VOLATILITY OF COAL PRICES

POTENTIAL IMPACT

The market price of coal is volatile and is affected by numerous factors which are and will be beyond the Group's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events as well as a range of other market forces. Coal prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond the Group's control. Sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the activities to be undertaken by the Group.

HOW WE MITIGATE IT

- The Group assesses the economic viability of its projects at coal prices based upon long term trends and builds sensitivity to the coal prices into its models
- Reports on expected coal prices from internationally recognised experts in the field

LACK OF INFRASTRUCTURE

POTENTIAL IMPACT

Mozambique does not have a well-developed infrastructure and the Group's assets are located in areas where some of the necessary transport infrastructure needs to be developed.

HOW WE MITIGATE IT

- The Group is a member of the Mozambican Coal Development Association to lobby the Mozambican Government to invest in infrastructure and obtain foreign investment in infrastructure
- The Group signed an infrastructure agreement with Rio Tinto in January 2012, which entitles the Group to transport capacity on a new potential greenfield rail and port development

POLITICAL RISK

POTENTIAL IMPACT

The Group's operations are based in Mozambique. As a result, there are important political and economic risks relating to Mozambique which could adversely affect an investment in the Company. While Mozambique's recent economic growth rates are good, some observers worry about the pattern of growth and its sustainability.

Despite some progress in increasing agricultural production, achieving broad-based growth remains a key challenge. Unemployment and poverty remain critical problems. Fiscal management continues to improve, with increased expenditure in priority sectors such as education, increased tax revenues, and moves towards decentralisation. Nevertheless, structural reform has been slow, notably in the public sector human resource management and salary structures as well as in the judicial system.

HOW WE MITIGATE IT

- The Group has a full time Government liaison officer whose role is to meet regularly with local and central government to raise the profile of the Group but more importantly, to keep a check on political and legal developments that could affect the mining sector and the Group going forward
- Regular updates on changes in legislation allow the Group to be proactive to potential changes in the political environment

ENVIRONMENTAL AND OTHER REGULATORY REQUIREMENTS

POTENTIAL IMPACT

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.

HOW WE MITIGATE IT

- Adopting standards of international best practice in environmental management and community engagement
- Satisfying Mozambican environmental regulations and requirements in all stages of development
- Environmental Management and Social Development Plans have been advanced and are being implemented to satisfy national and international best practice
- Impact assessment ("ESIA") is being conducted by independent, internationally recognised consultants

FINANCING RISK

POTENTIAL IMPACT

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.

HOW WE MITIGATE IT

- The Directors have prepared cash flow projections which show that there is adequate cash to allow the Group to operate for a minimum of 12 months from the publication of these financial statements
- The Directors will monitor the monthly cash burn rate to ensure the Group operates within its cash resources

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 25. 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); and

(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; and
- responsibility to the environment and the community.

Bribery Act

It is our policy to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, implementing and enforcing effective systems to counter bribery.

We will uphold all laws relevant to countering bribery and corruption in all the jurisdictions in which we operate and remain bound by the laws of the UK, including the Bribery Act 2010, in respect of our conduct both at home and abroad.

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.

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 24.

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 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 Executive Director and senior management 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 a 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 2011, the Group's cash and cash equivalent stood at US$30m. 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.

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 month's 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 2011 for individual Directors who held office in the Company during the period. All amounts are in US dollars.

Director	Note	Base Salary/fee US$'000	Bonus US$'000	Pension US$'000	Share based payments US$'000	**Total 2011 US$'000**	Total 2010 US$'000
Richard Stuart		112	–	–	37	**149**	95
Graham Mascall		482	155	73	–	**710**	4,683
Estevão Pale		64	–	–	28	**92**	85
Nigel Sutherland	1	64	–	–	28	**92**	60
Colin Harris		64	–	–	28	**92**	60
Mark Trevan		64	–	–	28	**92**	60
		850	155	73	149	**1,227**	5,043

1. This includes US$64,353 (2010: 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
20 April 2012

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 for each financial year which present fairly the state of affairs of the Group and of the profit or loss of the Group for that year.

The Directors have chosen to use the International Financial Reporting Standards ("IFRS") as adopted by the European Union in preparing the Group's financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements.

International Accounting Standards require that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation 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 International Financial Reporting Standards. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

A fair presentation also requires the Directors to:
- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable and prudent;
- 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;
- state that the Group has complied with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. In addition to being mailed to shareholders, financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF NCONDEZI COAL COMPANY LIMITED

We have audited the financial statements of Ncondezi Coal Company Limited for the year ended 31 December 2011 which comprise 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 22 January 2012 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 22 January 2012 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 and fair presentation of the financial statements. 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:
- present fairly, in all material respects the state of the Group's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS 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
55 Baker Street
London W1U 7EU
United Kingdom

Date 20 April 2012

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 2011

	Note	2011 US$'000	2010 US$'000
Other administrative expenses	3	**(6,554)**	(5,328)
Research expenses	3	**(1,334)**	–
Impairment of exploration costs	3	**(656)**	–
Share-based payments charge	3	**(2,597)**	(5,865)
Total administrative expenses and loss from operations		**(11,141)**	(11,193)
Finance income		**43**	32
Gain on derivative financial asset	15	**4,166**	10,813
Finance expense		**(50)**	(19)
Loss for the period before taxation		**(6,982)**	(367)
Taxation	4	**(84)**	(105)
Loss for the period attributable to equity shareholders of the parent company		**(7,066)**	(472)
Loss per share expressed in cents			
Basic and diluted	5	**(5.9)**	(0.5)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 US$'000	2010 US$'000
Loss after taxation	**(7,066)**	(472)
Other comprehensive income:		
Exchange differences on translating foreign operations	**19**	5
Total comprehensive income for the period	**(7,047)**	(467)

The notes on pages 31 to 46 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 US$'000	2010 US$'000
Assets			
Non-current assets			
Intangible assets	6	**28,563**	13,586
Property, plant and equipment	7	**2,592**	1,942
Total non-current assets		**31,155**	15,528
Current assets			
Trade and other receivables	9	**2,979**	1,272
Derivative financial asset	15	**–**	17,104
Cash and cash equivalents	10	**30,444**	38,068
Total current assets		**33,423**	56,444
Total assets		**64,578**	71,972
Liabilities			
Current liabilities			
Current tax payable		**81**	106
Trade and other payables	11	**3,418**	2,430
Total current liabilities		**3,499**	2,536
Total liabilities		**3,499**	2,536
Capital and reserves attributable to shareholders			
Share capital	12	**76,108**	59,245
Foreign currency translation reserve		**24**	5
Other reserves		**–**	5,791
Retained earnings		**(15,053)**	4,395
Total capital and reserves		**61,079**	69,436
Total equity and liabilities		**64,578**	71,972

The financial statements were approved by the Board of Directors on 20 April 2012.

Graham Mascall
Chief Executive Officer

The notes on pages 31 to 46 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital US$'000	Other reserves US$'000	Foreign Currency Translation reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2011	**59,245**	**5,791**	**5**	**4,395**	**69,436**
Loss for the period	–	–	–	(7,066)	(7,066)
Other comprehensive income for the period	–	–	19		19
Exercise of warrants	2,934	–	–	–	2,934
Issue of shares	36,206	–	–	–	36,206
Costs associated with issue of shares	(1,399)	–	–	–	(1,399)
Share buy-back and cancellation	(20,878)	–	–	–	(20,878)
Exercise of Dos Santos option	–	(20,770)	–	–	(20,770)
Reclassification of other reserves	–	14,979	–	(14,979)	–
Equity settled share-based payments	–	–	–	2,597	2,597
At 31 December 2011	**76,108**	**–**	**24**	**(15,053)**	**61,079**

	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)
Other 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

The notes on pages 31 to 46 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US$'000	2010 US$'000
Cash flow from operating activities			
Loss before taxation		**(6,982)**	(367)
Adjustments for:			
Finance income		**(43)**	(32)
Finance expense		**50**	19
Share-based payments charge	3	**2,597**	5,865
Derivative financial asset		**(4,166)**	(10,813)
Unrealised foreign exchange movements		**5**	(67)
Disposal of property plant and equipment		**14**	16
Depreciation and amortisation		**328**	92
Net cash flow from operating activities before changes in working capital		**(8,197)**	(5,287)
Increase in payables		**670**	1,195
(Increase) in receivables		**(1,707)**	(1,399)
Net cash flow from operating activities before tax		**(9,234)**	(5,491)
Income taxes paid		**(76)**	–
Net cash flow from operating activities after tax		**(9,310)**	(5,491)
Investing activities			
Payments for property, plant and equipment	7	**(958)**	(1,962)
Payments for other intangibles	6	**(46)**	(103)
Interest received		**43**	32
Exploration costs capitalised	6	**(14,166)**	(5,078)
Net cash flow from investing activities		**(15,127)**	(7,111)
Financing activities			
Issue of ordinary shares		**39,140**	52,000
Bank charges		**(50)**	(19)
Cost of share issue		**(1,399)**	(3,488)
Share buy-back		**(20,878)**	–
Shareholder loans received		**–**	2,162
Net cash flow from financing activities		**16,813**	50,655
Net increase/(decrease) in cash and cash equivalents in the period		**(7,624)**	38,053
Cash and cash equivalents at the beginning of the period		**38,068**	15
Effect of foreign exchange rate changes on cash and cash equivalents		**–**	–
Cash and cash equivalents at the end of the period		**30,444**	38,068

The notes on pages 31 to 46 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principal accounting policies

General

The Company is a limited liability company incorporated on 30 March 2006 in the British Virgin Islands. The address of its registered office is 2nd floor, Wickham's Cay II, PO Box 2221, Road Town, Tortola, British Virgin Islands.

Basis of preparation

The principal accounting policies adopted in the preparation of these 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.

Standards, amendments and interpretations effective in 2011:

The following new standards, interpretations and amendments to existing standards are mandatory for the first time for the Group for the financial year beginning 1 January 2011. Except as noted, the implementation of these standards did not have a material effect on the Group:

Standard		Impact on initial application	Effective date
IFRIC 19	Extinguishing financial liability with equity instruments	This interpretation addresses transactions in which an entity issues equity instruments to a creditor in return for the extinguishment of all or part of a financial liability. The Group applied this interpretation from 1 January 2011.	1 July 2010
IAS 24 (Revised)	Related party disclosures	The revised standard responds to concerns that the previous disclosure requirements and the definition of a related party were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The Group applied the revised standard from 1 January 2011.	1 January 2011
Improvements to IFRSs (2010)		The improvements in this amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between standards. The Group applied the amendments from 1 January 2011.	1 January 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Principal accounting policies continued

Standards, amendments and interpretations effective in 2011 but not relevant for the Group:

Standard		Impact on initial application	Effective date
IAS 32 (Amendment)	Classification of rights issues	The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuers. The amendment requires for rights issues to be accounted for as equity provided the rights are offered pro-rata to all existing owners of the entity. The amendment is not relevant to the Group as it had no rights issues.	1 February 2010
IFRS 1 (Amendment)	First-time adoption of IFRS	The amendment permits first-time adopters to use the same transitional provisions as are available to existing preparers of IFRS. This amendment is not relevant to the Group as it is an existing IFRS preparer.	1 July 2010
IFRIC 14 / IAS 19 (Amendment)	Limit on a defined benefit asset, minimum funding requirements and their interaction	The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment is not relevant to the Group as it is not subject to a minimum funding requirement.	1 January 2011

Standards, amendments and interpretations that are not yet effective and have not been early adopted:

Standard		Impact on initial application	Effective date
IFRS 7 (Amendments)	Disclosures – transfers of financial assets	The amendment requires the disclosure of information in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date. The Group will apply the amendments from 1 January 2012.	1 July 2011
IFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters	Management do not expect this amendment, which is subject to the endorsement by the EU, to be relevant to the Group.	1 July 2011*
IAS 12 (Amendment)	Deferred tax: recovery of underlying assets	The amendment introduces the presumption, when measuring the deferred tax relating to an asset, that the entity will normally recover its carrying amount through sale. Management do not expect this amendment, which is subject to the endorsement by the EU, to be relevant to the Group.	1 January 2012*
IAS 1 (Amendment)	Presentation of items of other comprehensive income	The amendment requires companies to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the income statement. The Group will apply the amendment from 1 January 2013, subject to the endorsement by the EU.	1 July 2012*
IFRS 10	Consolidated financial statements	The new standard replaces the consolidation requirements in SIC-12 "Consolidation – special purpose entities" and IAS 27 "Consolidated and separate financial statements". The Group will apply the standard from 1 January 2013, subject to the endorsement by the EU.	1 January 2013*
IFRS 11	Joint arrangements	The new standard requires that a party to a joint arrangement recognises its rights and obligations arising from the arrangements rather than focusing on the legal form. The Group will apply the standard from 1 January 2013, subject to the endorsement by the EU.	1 January 2013*
IFRS 12	Disclosure of interest in other entities	The standard includes the disclosure requirements for all forms of interest in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group will apply the standard from 1 January 2013, subject to the endorsement by the EU.	1 January 2013 *

Standard		Impact on initial application	Effective date
IFRS 13	Fair value measurement	The standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. The Group will apply the standard from 1 January 2013, subject to the endorsement by the EU.	1 January 2013 *
IAS 27 (Amendment 2011)	Separate financial statements	The amendment contains accounting and disclosure requirements for investment in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Group will apply the amendment from 1 January 2013, subject to the endorsement by the EU.	1 January 2013 *
IAS 28 (Amendment 2011)	Investments in associates and joint ventures	The amendment includes the required accounting for joint ventures as well as the definition and required accounting for associates. The Group will apply the amendment from 1 January 2013, subject to the endorsement by the EU.	1 January 2013*
IAS 19 (Amendment 2011)	Employee benefits	The main changes introduced by the amendment revolve around the accounting for defined benefit pension schemes. Management do not expect this amendment, which is subject to the endorsement by the EU, to be relevant to the Group as it has no defined benefit pension scheme in place.	1 January 2013*
IFRIC 20	Stripping costs in the production phase of a surface mine	This interpretation applies to waste removal (stripping) costs that are incurred in surface mining activity, during the production phase of the mine. The Group will apply the interpretation from 1 January 2013, subject to the endorsement by the EU.	1 January 2013*
IFRS 7 (Amendment 2011)	Disclosures – offsetting financial assets and financial liabilities	The amendment introduces disclosures to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on entity's financial position. The Group will apply the amendment from 1 January 2013, subject to the endorsement by the EU.	1 January 2013*
IAS 32 (Amendment 2011)	Offsetting financial assets and financial liabilities	The amendment seeks to clarify rather than change the offsetting requirements previously set out in IAS 32. The Group will apply the amendment from 1 January 2014, subject to the endorsement by the EU.	1 January 2014*
IFRS 9	Financial instruments	The standard will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components: classification and measurement, impairment and hedge accounting. The Group will apply the standard from 1 January 2013, subject to the endorsement by the EU.	1 January 2015*

* Not yet endorsed by the EU.

The Group is evaluating the impact of the above pronouncements but they are not expected to have a material impact on the Group's earnings or shareholders' funds.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Principal accounting policies continued

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 behavioural 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.

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 Group, the related costs will be written off.

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

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 recoverable 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 the income statement 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 of overseas group entities are translated into US$, which is the functional currency of the Company and presentation currency for the consolidated financial statements, at rates approximating to those ruling when the transactions took place, all assets and liabilities of overseas group entities are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange translation reserve.

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 reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the income statement.

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 the 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.

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 reporting 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. 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 reporting 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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Principal accounting policies continued

Financial liabilities

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 statement of financial position.

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 Company's ordinary shares are classified as equity instruments.

For the purposes of the disclosures given in note 12, the Company considers its capital to be total equity.

The Company 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.

(ii) Fair value of financial instruments and share-based payments

The Group determines the fair value of financial instruments that are not quoted and equity-settled share-based payments, using valuation techniques and models which are significantly affected by the assumptions used. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately. The methods and assumptions applied, and valuations models used are disclosed in notes 14 and 15.

Accounting estimates

(i) Provisions for liabilities

As a result of exploration activities the Group is required to make a provision for rehabilitation. As the Group's activities are still at an exploration stage no significant damage has been caused up to the reporting date.

(ii) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

3. Administrative expenses

	2011 US$'000	2010 US$'000
Staff costs	2,761	2,277
Professional and consultancy	1,167	1,402
Office expenses	1,094	598
Travel and accommodation	1,130	969
Other expenses	1,035	777
Foreign exchange gain	(633)	(695)
Other administrative expenses	6,554	5,328
Research expenses*	1,334	–
Impairment of exploration costs**	656	–
Share-based payments***	2,597	5,865
Total administrative expenses	11,141	11,193

* The research expenses relate to an infrastructure study in respect of logistics options available for transportation and export of coal reserves as well as future projects.

** Impairment of exploration costs relates to the write off of the exploration costs incurred in respect of licences 1314L and 1315L which are considered to be of no further commercial value to the Group and a decision has been made to relinquish these licences (note 6).

*** The share-based payments charge relates to 6.7 million share awards granted to Directors and senior management during the year ended 31 December 2010 (note 14).

Auditors' remuneration

	2011 US$'000	2010 US$'000
Group auditors' remuneration		
– audit of the Group's accounts	69	68
– audit of the Group's subsidiaries	23	11
Other services		
– services relating to the corporate finance transactions entered by or on behalf of the Group	–	141
– other services relating to taxation	9	62
	101	282

Staff costs (including Directors)

	2011 US$'000	2010 US$'000
Wages and salaries	5,332	2,849
Share based payments	2,597	5,865
Social security costs	247	199
	8,176	8,913

US$2,817,914 (2010: US$770,791) included within wages and salaries related to exploration and evaluation costs and have been capitalised to intangible assets (note 6).

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

	2011 Number	2010 Number
Operational	24	8
Administration	20	12
	44	20

Key management compensation:

	2011 US$'000	2010 US$'000
Salary	1,765	1,697
Fees	–	232
Social security costs	235	178
	2,000	2,107
Pension	82	76
Share based payments	1,838	5,865
	3,920	8,048

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 Ncondezi Coal Company Mozambique Limitada, which is subject to tax at the rate of 32% (2010: 32%) on its profits in Mozambique and Ncondezi Services (UK) Limited which is subject to tax at a rate of 26% (2010: 28%) on its profits in the UK. No tax charge/(credit) arose in the current or prior year for Ncondezi Coal Company Mozambique Limitada.

Tax payable for 2011 has been estimated at US$84,000 and has been reconciled to the expected tax charge based on the Group losses at the standard rate of taxation in the UK where the Group has generated taxable profits as follows:

	2011 US$'000	2010 US$'000
Current tax – UK corporation tax	84	105
Group loss on ordinary activities before tax	(6,982)	(367)
Effects of:		
Reconcile to UK corporation tax rate of 26% (2010: 28%)	(1,815)	(102)
Differences arising from different tax jurisdictions	1,081	(96)
Non deductible expenses	195	23
Foreign exchange effect originating in overseas companies	101	-
Unrecognised taxable losses carried forward	522	280
Total tax charge for the year	84	105

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. Taxation continued

During the exploration and development stages, the Group will accumulate tax losses which may be carried forward. As at 31 December 2011, no deferred tax asset has been recognised for tax losses of US$802,000 (2010: US$280,000) carried forward within the Group's overseas subsidiaries, as the recovery of this benefit is dependent on the future profitability, the timing and certainty of which cannot be reasonably foreseen.

Tax losses in Mozambique are available for use over a five year period. Of the total available Mozambican subsidiary tax credits, US$417,941 will be available until 31 December 2016, and US$280,000 will be available until 31 December 2016.

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 year and for the prior years 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 outstanding at the end of the year that could potentially dilute basic earnings per share in the future. There were no potential ordinary shares outstanding in the year (2010: 1,447,822).

	2011			2010		
	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 EPS	**(7,066)**	**120,473**	**(5.9)**	(472)	99,950	(0.5)

6. Intangible assets

	Exploration and evaluation costs US$'000	Other intangible assets US$'000	Total US$'000
Cost			
At 1 January 2011	**13,493**	**103**	**13,596**
Additions	**15,622**	**46**	**15,668**
Impairment	**(656)**	**–**	**(656)**
At 31 December 2011	**28,459**	**149**	**28,608**
At 1 January 2010	8,415	–	8,415
Additions	5,078	103	5,181
At 31 December 2010	13,493	103	13,596
Amortisation			
At 1 January 2011	–	10	10
Amortisation charge	–	35	35
At 31 December 2011	**–**	**45**	**45**
Net Book value 2011	**28,459**	**104**	**28,563**
Net Book value 2010	13,493	93	13,586
Net book value 2009	8,415	–	8,415

Exploration and evaluation costs relate to the initial acquisition of the licences and subsequent exploration expenditure incurred in evaluating the Ncondezi project, which consists of the 804L and 805L licence areas situated in Tete, Mozambique.

Included within additions to the exploration and evaluation costs are expenditure of US$656,000 incurred in respect of exploration licences 1314L and 1315L located in Tete, Mozambique. The results of exploration works carried out in these licence areas proved to be unsuccessful and these licences are no longer considered to be of any commercial value to the Group. Consequently a decision has been made to relinquish the licences 1314L and 1315L and the related costs have been written off to the income statement (note 3).

7. Property, plant and equipment

	Assets in the course of construction US$'000	Buildings US$'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 2010	**–**	**–**	**79**	**33**	**10**	**30**	**152**
Additions	1,358	–	317	16	23	248	1,962
Disposals	–	–	(79)	–	–	(12)	(91)
Exchange adjustment	–	–	–	(3)	–	–	(3)
At 1 January 2011	**1,358**	**–**	**317**	**46**	**33**	**266**	**2,020**
Additions	–	399	172	183	–	204	958
Disposals	–	–	–	–	(6)	(16)	(22)
Transfer	(1,358)	1,358	–	–	–	–	–
At 31 December 2011	**–**	**1,757**	**489**	**229**	**27**	**454**	**2,956**
Depreciation							
At 1 January 2010	**–**	**–**	**53**	**–**	**3**	**15**	**71**
Depreciation charge	–	–	31	12	4	35	82
Disposals	–	–	(63)	–	–	(12)	(75)
At 1 January 2011	–	–	21	12	7	38	78
Depreciation charge	–	59	61	72	5	96	293
Disposals	–	–	–	–	(4)	(3)	(7)
At 31 December 2011	**–**	**59**	**82**	**84**	**8**	**131**	**364**
Net Book value 2011	**–**	**1,698**	**407**	**145**	**19**	**323**	**2,592**
Net Book value 2010	1,358	–	296	34	26	228	1,942
Net book value 2009	–	–	26	33	7	15	81

8. Subsidiaries

The Group has the following subsidiary undertakings:

		% interest 2011	% interest 2010	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
Ncondezi Coal Company Mozambique Limitada (formerly Zambezi Energy Corporation Limitada)	"NCCML"	100	100	Mozambique	Mining exploration
Ncondezi Services (UK) Limited	"NSUL"	100	100	UK	Holding company

Ncondezi Coal Company Mozambique Limitada (formerly 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

	2011 US$'000	2010 US$'000
Current assets:		
Other receivables	**2,979**	1,272
Total trade and other receivables	**2,979**	1,272

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10. Cash and cash equivalents

	2011 US$'000	2010 US$'000
Cash at bank and in hand	**30,444**	38,068
	30,444	38,068

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

	2011 US$'000	2010 US$'000
US Dollars	**28,946**	36,217
Great British Pounds	**1,472**	1,689
Mozambique Meticais	**26**	162
	30,444	38,068

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

11. Trade and other payables

	2011 US$'000	2010 US$'000
Other payables	**2,223**	1,371
Other taxation and social security	**464**	791
Accruals and deferred income	**731**	268
	3,418	2,430

Included within other payable is US$Nil (2010: US$500,000) in respect of Dos Santos Put Option, note 15.

Included within other taxation and social security is US$372,892 (2010: US$402,218) in respect of withholding tax payable in Mozambique.

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

12. Share capital

Number of shares Allotted, called up and fully paid	2011	2010
Ordinary shares of no par value	**121,115,682**	119,857,334

	Shares issued Number	Share capital $'000	Share premium $'000
At 1 January 2011	**119,857,334**	**59,245**	**–**
Issue of shares	**12,000,000**	**34,807**	**–**
Share buy–back and cancellation	**(12,189,474)**	**(20,878)**	**–**
Exercise of warrants	**1,447,822**	**2,934**	**–**
At 31 December 2011	**121,115,682**	**76,108**	**–**

	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	–

13. Reserves

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

Share capital	Amount subscribed for share capital
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

14. 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 2011, 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 2011 was 52.25p (31 December 2010: 200.5p). The highest and lowest mid-market closing share prices during the year were 230.50p (2010: 200.5p) and 51.50p (2010: 125.5p) respectively.

There were no share awards issued during the year, in 2010, 2,800,000 share awards were issued with a nil exercise price and vested on the date of grant. The full fair value on the date of grant has been charged to the Income Statement.

The fair value of the remaining 3,900,000 share awards granted under the Group's LTIP has been calculated using the Black-Scholes model and spread over the vesting period. 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 market conditions are attached to these share awards. The fair value at the date of grant was determined using a probability of meeting these market conditions.

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$2,597,325 for the year (2010: US$5,864,106).

15. 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 the 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 $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 of in excess of $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 had occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. Derivative financial asset continued
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.

As the Call Option is priced in Pound Sterling whilst the functional currency of the Company is US$, 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 at the date the call option was exercised was US$21,270,000 (2010: US$17,104,000). It has been calculated using the Black-Scholes model with the following principal assumptions used in the valuation:

	Initial recognition	At 31 December 2010	At 20 January 2011
Share price on issue of loan notes	123.00p	200.50p	220.00p
Strike price	110.70p	110.70p	110.7p
Volatility	54%	34%	34%
Risk-free investment rate	1.50%	1.50%	1.5%
Fair value	35.18p	89.90p	110.00p

During the year a gain of US$4,166,000 (2010: 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 was recognised in the Statement of Financial Position within other payables at 31 December 2010 and was subsequently de-recognised following the exercise of the call option.

16. 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, and
- 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 2011 are as follows:

Income statement	Exploration US$'000	Corporate US$'000	Group US$'000
For the year ended 31 December 2011			
Segment result before and after allocation of central costs	**(2,894)**	**(8,247)**	**(11,141)**
Finance expense	**(14)**	**(36)**	**(50)**
Finance income	**–**	**4,209**	**4,209**
Loss before taxation	**(2,908)**	**(4,074)**	**(6,982)**
Taxation	**–**	**(84)**	**(84)**
Loss for the year	**(2,908)**	**(4,158)**	**(7,066)**

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)	(10,290)	(11,193)
Finance expense	–	(19)	(19)
Finance income	–	10,845	10,845
Loss before taxation	(903)	536	(367)
Taxation	–	(105)	(105)
Loss for the year	(903)	431	(472)

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 2011			
Depreciation charged to the income statement	**(270)**	**(58)**	**(328)**
Share based payments	**–**	**(2,597)**	**(2,597)**
Income tax expense	**–**	**(84)**	**(84)**

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	–	(5,865)	(5,865)
Income tax expense	–	(105)	(105)

The segment assets and liabilities at 31 December 2011 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 2011			
Segment assets	**30,703**	**33,875**	**64,578**
Segment liabilities	**(1,543)**	**(1,956)**	**(3,499)**
Segment net assets	**29,160**	**31,919**	**61,079**
Property plant and equipment capital expenditure	**956**	**2**	**958**
Exploration capital expenditure	**14,966**	**–**	**14,966**

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

17. 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:

	2011 US$'000	2010 US$'000
Loans and receivables at amortised cost		
Trade and other receivables	**2,979**	1,272
Cash and cash equivalents	**30,444**	38,068
Financial assets at fair value through profit and loss		
Derivative financial asset	**–**	17,104
Financial liabilities held at amortised cost		
Trade and other payables	**2,954**	1,639

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 polices 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 three different banks in Guernsey, London and Mozambique. The Group seeks to deposit cash with reputable financial institutions with strong credit ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. Financial instruments continued

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debts. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

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

Maturity analysis

2011	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
Trade and other payables	2,954	–	2,954	–	–	–

2010	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
Trade and other payables	1,639	–	1,639	–	–	–

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

Borrowing facilities

The Group had no undrawn committed borrowing facilities available at 31 December 2011 (2010: Nil).

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 on the viability of the project.

Currency risk

The Group is exposed to currency risk through its activities in Mozambique due to certain costs arising in Mozambique Meticais, 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 Meticais and GB pounds will increase net assets by US$191,258 (2010: US$69,156).

Currency exposures

As at 31 December, the Group's net exposure to foreign exchange risk was as follows:

	2011 US$'000 Assets/(liabilities) held				2010 US$'000 Assets/(liabilities) held			
	USD	GBP	MZN	Total	USD	GBP	MZN	Total
US dollars	27,159	626	2,684	30,469	36,292	17,756	757	54,805
	27,159	626	2,684	30,469	36,292	17,756	756	54,805

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:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(b) 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
(c) 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

	Derivative financial asset	
	2011 US$'000	2010 US$'000
Opening balance	**17,104**	–
Additions	**–**	6,291
Net gains recognised in income statement	**4,166**	10,813
Disposal	**(21,270)**	–
Closing balance	**–**	17,104

18. 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 are 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 is expected to arise in excess of those recognised in the financial statements.

19. 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 2011 and 31 December 2010 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. ATL did not provide any services to the Group during the year (2010: US$172,305) and there was no outstanding balance at 31 December 2011 (2010: US$84,646).

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 of prospecting and exploration licences 804L, 805L, 1314L and 1315L in the Republic of Mozambique. During the year, a total of US$Nil (2010: US$2,162,709) was drawndown 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% or more of the issued shares or voting rights of the Company.

As at 31 December 2011 Strata held 45.56% of the Company.

Strata Capital UK LLP

Strata Capita UK LLP charged the Company $160,756 (2010: $Nil) in respect of legal services. There was no outstanding balance at 31 December 2011 (2010: $Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19. Related party transactions continued

Strata Group Services Limited

In December 2009, the Group entered into a short term lease which expired in June 2011, with Strata Group Services Limited, a subsidiary of Strata for offices in London, United Kingdom. The annual rent for these offices was US$123,242 (equivalent £79,650). A total of US$53,266 was charged during the year. There was no outstanding balance at 31 December 2011.

MMDN Financial Services LLP ("MMDN")

During the year MMDN, a firm which Manish Kotecha is a partner, charged the Company US$36,681 (2010: US$81,483) in respect of financial services. The balance outstanding at 31 December 2011 was US$370 (2010: US$8,665).

Mines Value Management

During the year US$64,353 (2010: US$35,975) was paid to Mines Value Management in respect of services provided by Nigel Sutherland. There was no balance due at 31 December 2011 (2010: US$Nil).

20. Lease commitments

Operating lease commitments – minimum lease payments

Ncondezi Services (UK) Limited administration office

In November 2011 the Group entered into a three year lease for offices in London, United Kingdom. The annual rent for these offices is US$334,630 (£216,505).

Future minimum lease payments under non-cancellable operating leases as at 31 December 2011 are as follows:

	2011 US$'000	2010 US$'000
Within one year	335	127
After one year but not more than five years	670	260
Minimum lease payments	1,005	387

21. Commitments

In December 2011, a Memorandum of Understanding was signed with the Ministry of Mineral Resources in respect of a three year SDP, with a committed spend of US$2m. The SDP is due to be implemented between 2012 and 2015.

22. Events after the reporting date

Infrastructure Agreement

Ncondezi has signed a new rail and port infrastructure study agreement (the "Agreement") with Rio Tinto Coal Mozambique ("RTCM"), a wholly owned subsidiary of Rio Tinto plc ("Rio Tinto"), and Minas de Revuboe ("Revuboe"), to further study greenfield port and rail options and related infrastructure (together the "Integrated Transport Development Project" or "ITD Project"). This is a continuation of the jointly funded order of magnitude infrastructure study ("OoM Study") which was completed in Q4 2011.

The agreement provides rights for Ncondezi to access up to 10 Mtpa of rail and port capacity on a proposed greenfield rail and port project to be developed in Mozambique. The Agreement allows the parties to build upon the results of the OoM Study and move the ITD Project towards implementation.

RTCM will lead the necessary study work required to determine the feasibility of the Integrated Transport Corridor. Ncondezi will not be required to contribute to the project feasibility or development capital costs, other than for the infrastructure required for the Ncondezi Project's sole use to connect a rail spur with the ITD Project rail network.

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)
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Nominated Advisor and Joint Broker	Liberum Capital Limited Ropemaker Place Level 12 25 Ropemaker Street London EC2Y 9AR
Joint Broker	Canaccord Genuity Limited 88 Wood Street London WC2V 7QR
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
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NOTES

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