NCONDEZI
COAL COMPANY

An emerging Mozambican power development company

Ncondezi Coal Company
Annual report and financial statements 2012

Overview
Our vision

Ncondezi is focused on the phased development of its large scale, long life, integrated thermal coal mine and 1,800MW power plant project in northern Mozambique.

Ncondezi Coal Company Limited ("Ncondezi", the "Company" or the "Group"), is a BVI registered publicly listed company on the AIM market of the London Stock Exchange (Ticker: NCCL).

Visit
www.ncondezicoal.com

For regular updates and additional information on the Company and its activities.

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Highlights

Project achievements 2012

- Decision to proceed with development of 300MW Power Project
- Positive results of Power DFS published, independently reviewed by STEAG
- System Optimisation Study completed
- Power Evacuation Study completed, route identified and aerial surveillance completed
- Power regulatory process initiated
- JORC resource increased to 4.7bt
- Mine DFS Completed
- Mine Framework Agreement signed with Ministry of Mineral Resources
- Mining Concession Application lodged with Ministry of Mineral Resources
- Infrastructure Agreement with Rio Tinto and Minas de Revuboè for Ncondezi's future export grade coal production

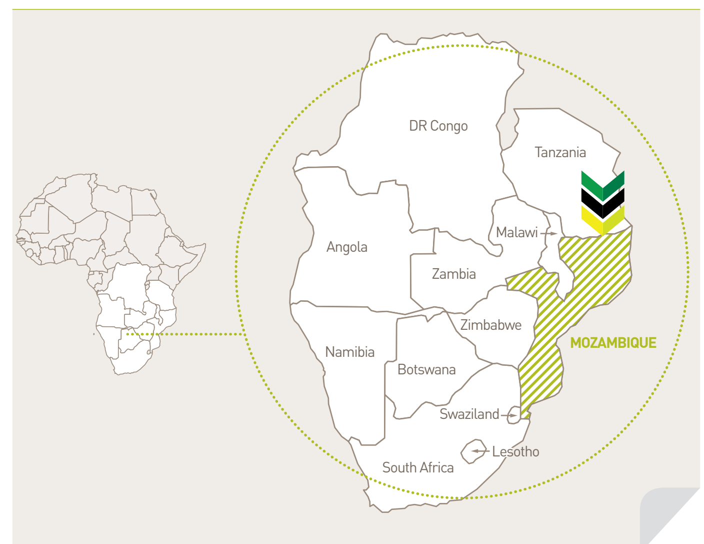
H1 2013

- Ncondezi transitioning into a Power Development Company
- Power Framework Agreement signed with Ministry of Energy
- Formal endorsement of the project by the Mozambican Government
- EPC preselection process commenced
- Power Purchase Agreement negotiations commenced

Corporate highlights

- Board and senior management restructured to strengthen team with power expertise
- Appointment of Paul Venter as Executive Director and Chief Executive Officer
- Appointment of Christiaan Schutte and Peter O'Connor as Non-Executive Directors
- Funded for current project activities until end of Q1 2014
- Cash balance US$12m, as at 31 December 2012

Southern African Power Pool



At a glance
The need for power in Mozambique

Ncondezi's project is located in the Zambezi Coal Basin in the Tete Province, Mozambique.

ZAMBIA
MOZAMBIQUE
ZIMBABWE
95km to pillon supply
Songo
Cahora Bassa Hydro Dam
Tete
Malawi
Lilongwe
Pemba
Port of Nacala
Nampula
Moma
Uape
Quelimane
Caia
Marromeu
Bindura
Harare
Mutare
Port of Beira
Towards Apollo (South Africa)

Electricity link to Zimbabwe
Electricity link to South Africa
The Northern Grid
The Central Gird

Objective

Develop a credible, financeable power business in Mozambique with strong growth potential

Strategy

Phased development minimises capital outlay

- Realistic in current market conditions
- Meets existing demand
- Utilising existing transmission infrastructure

Maximise Project Returns

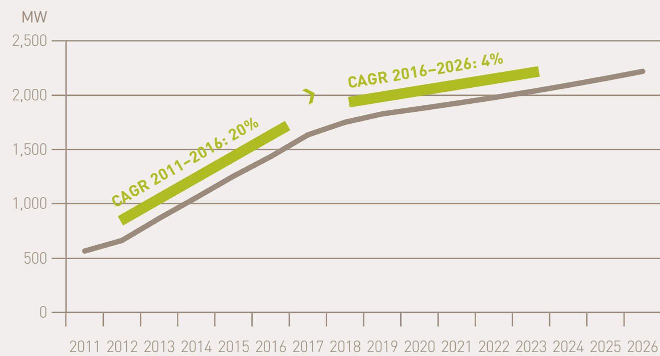
- Unlock value through delivery of project milestones
- Power projects generate predictable revenues
- Project finance available
- Achieve attractive project IRRs for investment

Phased expansion to meet growth

- Incremental units of 300MW units optimal
- Strong demand for power
- Well positioned to capitalise on both current and planned transmission infrastructure

Strongest energy demand outlook in the region

Mozambique load growth: Medium forecast



Source: Transmission Grid Consulting

Regional focus

- Established regional energy player
- Second largest generator in SAPP
- Largest exporter to South Africa
- Largest % energy demand growth in southern Africa
- Accelerating electrification and access to electricity is a strategic imperative for Government
- Higher tariffs trend in region supports viability of IPP projects, up to 50% increase in SAPP
- Track record of recent power projects
- Only 20% of Mozambique electrified

300MW integrated mine & power plant project

Open pit mine

- +25 year coal supply to power plant
- 1.2Mtpa operation
- Truck and shovel mining
- Low strip ratios
- DFS complete
- Mining licence application lodged
- ESIA due H1 2013

Power plant

- Proven CFB[1] technology
- Access to water
- 10km to mine
- DFS complete
- Peer review complete
- 20% IRR
- Framework Agreement with MoE[2] signed
- ESIA due H1 2013

Transmission

- Access to Mozambican grid
- 90km grid connection
- Evacuation Study completed
- MoE[2] approval of connection route
- ESIA due H2 2013

Footnotes
1: Circulating Fluidised Bed technology.
2: Ministry of Energy.

Benefits

- Closely aligned to Government electrification policy
- Only dedicated coal fired power plant project in Mozambique
- Provides sustainable power generating capacity
- First phase 100% focused on meeting local demand
- Direct and indirect job creation and skills transfer & training
- Contributor to local, national and regional development
- Improving local Mozambicans' quality of life

Business review
Chairman's statement

Michael Haworth
Non-Executive Chairman

Dear Shareholder,

2012 was a pivotal year for the Company, as it transitioned from a coal explorer to an emerging power developer. Following the completion of the technical studies, which confirmed the viability of the Company's project in Mozambique, the Board took the decision to proceed with the phased development of an integrated thermal coal power plant and mine (the "Ncondezi Project").

Opportunities for independent power producers ("IPPs") in southern Africa have opened up as the region struggles to meet the demand for power. The liberalisation of the South African power market, the continent's largest, as well as the recent increases in power tariffs have combined to make IPP projects financially attractive in the southern African region.

Mozambique is uniquely positioned with an established and successful history of generating and exporting power. The country is strategically located bordering South Africa, Zimbabwe, Zambia, Malawi and Tanzania, all of which require additional power. It is the largest exporter of power to South Africa, a key member of the South African Power Pool ("SAPP") and is currently the fastest growing electricity market in southern Africa.

The Mozambican Government is keen to capitalise on this position and further expand on its role as an important regional energy player. Key Government priorities are to increase electrification of the country, currently at just 20%, and to develop regional electricity generation and transmission infrastructure. The country has already secured the backing of the World Bank and European Investment Bank to develop local power projects. The Ncondezi Project is closely aligned with the Government's vision.

During the second half of 2012, Ncondezi successfully completed Definitive Feasibility Studies ("DFS") on both its mine and power projects, which confirmed the technical viability and economic robustness of the proposed projects. However, since initiating the Mine DFS in Q3 2010, the macro-economic environment has changed considerably. Seaborne thermal coal prices have weakened significantly and there are capital constraints for large, greenfield mine development projects. The developing coal basin around Tete has not been immune to these changes and the large, capital intensive export rail and port infrastructure projects, primarily for coking coal projects, are developing much more slowly than originally envisaged.

Ncondezi believes the power opportunity for the Company is much more attractive. Adopting a phased development approach will deliver a more achievable, prudent and financeable path to production than the immediate development of a larger scale, higher capital intensive project as defined in the Mine DFS, which is reliant on third party rail and port infrastructure development for project operations to begin. Therefore production of an export thermal coal product with associated capital expenditure is an option that will be initiated only when rail and port infrastructure in Mozambique has sufficiently advanced.

Ncondezi is focused on developing a base load power plant and open pit mine in phases of 300 megawatts ("MW"), up to 1,800MW. Development of the first 300MW phase ("300MW Project") is under way and is targeting domestic consumption in Mozambique using existing transmission capacity to meet current demand. The power plant is expected to be commissioned and generate electricity during 2017. The subsequent roll out of additional 300MW units will be phased to meet the projected growth in both transmission capacity and power demand within Mozambique and the SAPP.

The 300MW Project is expected to be cost competitive with other sources of energy in the southern African region. It has unique advantages over other potential power projects in the region as it is scalable, has security of fuel supply and can be implemented within a 24–36 month timeframe, utilising existing infrastructure and transmission capacity to supply power to both domestic and export markets.

Power plant projects are stable businesses as they enter into long-term power offtake agreements, usually for 20–25 years which generate predictable cash flows. Financing power projects is more straightforward, compared to greenfield mine development projects, as they can support higher levels of debt financing, typically in the region of 70%–85%.

Ncondezi has started to explore a number of potential funding options for the development of the 300MW Project. The majority of the Project is expected to be funded by debt, with an equity contribution of between 15%–30% of the Project cost. The equity contribution will only be required at the very end of the development stage, when the project has been largely de-risked with all the key commercial agreements signed and potentially monetised with the debt financing in place.

Ncondezi's immediate focus for the coming year is to negotiate the key commercial agreements for the 300MW Project, namely the Power Purchase, the Power Concession, the Coal Supply and the Transmission Access agreements, and to optimise the capital expenditure for the integrated 300MW power plant and mine.

Despite the Company's share price under performance over the past year, in line with many junior mining companies, achievement of these key project milestones will present share price catalysts as the 300MW Project is systematically de-risked. Equity contributions will be supported by engineering, procurement and construction ("EPC") firms and operator and maintenance contractors' equity contributions, further reducing the total equity requirement. As part of the potential funding options, the Company has already initiated discussions

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with a number of potential equity partners, ranging from private equity groups, African focused funds, IPPs, project development investors and power developers who have all indicated an appetite for the 300MW Project.

2013 has started on a highly encouraging note with the signing of the Power Framework Agreement. This is formal endorsement for the Project by the Mozambican Government and gives Ncondezi the exclusive mandate to negotiate a power offtake (also known as the Power Purchase Agreement) with the state owned utility company, Electricidade de Mozambique ("EdM") as well as regional power offtakers. The application for a Mining Concession has also been submitted and the Company expects to receive it during Q3 2013.

As part of this transformation from mining to power, we have implemented Board and management changes and are proposing a Company name change to Ncondezi Energy Limited, which more accurately represents the nature of the business. A resolution to propose the Company name change will be tabled at this year's Annual General Meeting.

This year the Board and management team have been strengthened with power expertise. Following the successful completion of all the mining-related geological, technical and feasibility study work, Nigel Walls decided it was time to move on from his position as Chief Executive Officer and hand the reins over to Paul Venter. Paul was appointed Chief Operating Officer in June last year and has been responsible for the Company's power strategy and delivering the project's power-related milestones to date. He has a wealth of coal-fired power generation experience with over 30 years in the industry and has worked for power generation companies and independent power producers in South Africa, Russia, China and Mongolia.

The Company also recently appointed two Non-Executive Directors, Peter O'Connor and Christiaan Schutte. They bring with them a significant amount of power expertise in both generation and transmission in southern Africa that will be invaluable as the 300MW power project progresses through the development stage and project funding phases.

I would like to take this opportunity to thank Nigel Walls and Colin Harris, who recently resigned as a Non-Executive Director, for their valuable contribution guiding the project over the past few years through the exploration and feasibility study stages to its current development phase. I would also like to thank my fellow Board members, the Ncondezi staff and project consultants for their hard work over the past year, which has been a particularly intensive period with two concurrent feasibility studies to complete.

Looking ahead, I believe Ncondezi is well placed to achieve its objectives for the year. The Company has an experienced team in place that has the necessary power expertise and strong relations with the Mozambican government. Turning Mozambique's coal resources into electricity provides Shareholders with a more attractive business proposition in the current climate. The 300MW Project will also deliver significant benefits to local communities, as well as the country as a whole through job creation, supporting economic development and providing Mozambique with long-term sustainable power.

Key Milestones

H2 2012
Power & Mine DFSs completed

H1 2013
Power Framework Agreement signed

H2 2013
Mine Concession expected

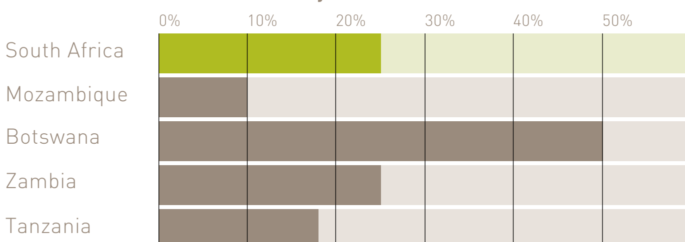
H2 2014
Power Purchase Agreement signed

H1 2015
Mine Construction targeted

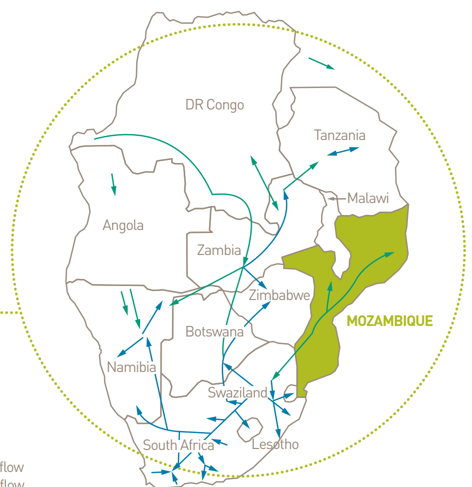
H1 2016
Power Plant construction targeted

2017
Power Plant commissioned

Tariff increases in the last two years



Southern African Power Pool



Major network and direction of flow
Minor network and direction of flow

Business review
Operations review

Ncondezi project

Building an exciting power business in Mozambique with strong growth potential through the phased development of an integrated open pit mine and power plant.

2012 in Review

During the course of the year, Ncondezi completed all the major technical study work on the Ncondezi Project, including two DFSs on power and mine projects and announced an upgraded resource statement, in accordance with JORC.

Based on the outcomes of the feasibility studies, Ncondezi has decided to proceed with the development of an integrated, long life, thermal coal power plant and open pit mine in phases of 300MW units, up to 1,800MW.

Development of the first 300MW phase is under way and is targeting domestic consumption in Mozambique using existing transmission capacity to meet current demand. The power plant is expected to be operational and generate electricity during 2017.

The subsequent roll-out of additional 300MW units will be phased to meet the projected growth in both transmission capacity and power demand within Mozambique, as well as the SAPP. The power plant is expected to be cost competitive with other sources of energy in the southern African region.

Production of an export thermal coal product and associated capital expenditure will be initiated only when rail and port infrastructure in Mozambique is sufficiently advanced.

The 300MW Project

In September 2012 Ncondezi published the results of a Power DFS by Parsons Brinckerhoff, a leading provider of engineering and project management services to the global power and energy market, which confirmed the economic and technical viability of an 1,800MW thermal coal fired power plant, to be built in phases of 300MW. The Power DFS was independently verified by STEAG, one of Germany's largest electricity producers.

Ncondezi's vision is to become the power developer of choice in Mozambique.

Power plant location
The proposed site for the power plant is approximately 5km from the planned open pit coal mine and approximately 90km from existing power transmission infrastructure. The location will reduce the costs of coal transportation and is at a safe distance from the mining areas to minimise any impact of mine blasting operations.

Captive fuel supply
The power plant will have a captive fuel supply. The mine will comprise a 2 million tonnes per annum ("Mtpa") run-of-mine ("ROM") open pit mining operation with an average strip ratio of 1.0 (tonne to tonne) producing 1.2Mtpa of 17MJ/kg (NAR) domestic grade thermal coal product at an average yield of +55% for supply to a 300MW mine mouth power plant over a 25 year life. The Ncondezi Project has a coal resource of over 4.7bt (reported in accordance with JORC) which is more than sufficient to supply up to an 1,800MW power plant over 25 years.

Technology and technical information
The power plant will be a base load electricity provider, using Circulating Fluidised Bed ("CFB") technology, and is expected to operate at an 82% load factor. CFB is proven technology and has been selected as it is better suited to the quality and composition of the domestic grade coal (compared to Pulverised Fuel technology), it has proven unit capacity, with a number of units successfully operating worldwide, and it has low NOx and SOx emissions. The low emissions will ensure compliance with the Government of Mozambique's requirements for air quality, as well as meet the World Bank and IFC's standards for emissions from coal fired power plants.

The size of each generating unit is currently envisaged to be 300MW as it offers the best efficiency capability of CFB technology, the best capital expenditure per kilowatt ("US$/kW") option and the ability of the existing power grid to absorb and evacuate power.

Each 300MW power block will comprise a steam generator, a steam turbine and generator, a wet type of cooling condenser system and electrostatic precipitators. The cooling system is proposed to include wet mechanical draft cooling towers, which will enable the units to operate at higher thermal efficiency. A hydrological study has been completed, confirming there is sufficient cooling water available and a water optimisation study is now under way.

Power transmission and evacuation
The power plant site will be located approximately 90km from EdM's northern grid high voltage network. System optimisation and power evacuation studies were completed during 2012 and confirmed that there is both current transmission capacity and demand for the first 300MW phase, as well as forecast demand and transmission growth projects for the entire 1,800MW.

The first phase is focused on meeting current domestic demand in the Northern grid. Of the first 300MW, 250–270MW is expected to be supplied to EdM via the construction of a new 400kV transmission line linking the power plant to the Northern grid, at an estimated cost of US$50m. The balance of the electricity is expected to be consumed by the power plant and mine.

A power evacuation feasibility study and accompanying Environmental Social Impact Assessment have commenced and the power evacuation aerial surveillance route has already been flown. These studies are due for publication during the second half of 2013.

Permitting
The permitting process for the 300MW Project has already commenced. A Mine Framework Agreement was signed during Q2 2012 with the Ministry of Mineral Resources. This was followed by an application for a Mining Concession, upon completion of the Mine DFS, in December 2012. The Mining Concession is a key prerequisite to commencing construction and mining operations and it is expected to be issued during Q3 2013.

Work on the power regulatory process was initiated during H2 2012, with the Company engaging with a number of government officials across key government departments, including the Ministry of Energy and EdM. Quick progress has been made and the Power Framework Agreement ("PFA") was signed in April 2013.

Business review
Operations review continued

The PFA is formal endorsement by the Mozambican Government of Ncondezi's Power Project and is a key milestone. The Agreement provides an exclusive platform from which to negotiate the key commercial, financial, legal and local participation parameters of the Project.

Power offtake and key commercial agreement

Work streams to progress the power plant project towards a fully financeable project have commenced. Ncondezi is targeting EdM as the main offtaker for the first 300MW. EdM is an ideal customer as it can readily absorb power today, it has existing transmission capacity and there is current demand, with strong growth potential.

Negotiations have commenced with EdM, beginning with Heads of Terms for a Power Purchase Agreement ("PPA") and are expected to be concluded by Q4 2013. Ncondezi expects to sign the final PPA in H2 2014 and is targeting a competitive electricity tariff.

Heads of Terms on the Coal Supply Agreement are well advanced and are also expected to be completed by Q4 2013. The Agreement will be conducted at arm's length and on commercial terms with a minimum duration of 25 years.

Capital expenditure

Capital expenditure estimates and operating costs for the integrated 300MW Project are being optimised, as the Mine DFS capital expenditure projections were based on a larger mining operation producing both domestic and export grade products.

Current estimates indicated that the 300MW power plant requires US$504m of capital expenditure over a 24–36 month construction period and meets the +20% IRR hurdle requirements for infrastructure projects.

Excluding an export coal component in the first phase of the mine's development has presented a number of cost saving opportunities through smaller mining and equipment requirements and higher average product yields. Ncondezi has been exploring a number of options to minimise capital outlay and operating costs further during H1 2013, including assessing contractor versus owner-operated mining and evaluating the detailed quotes from EPC firms based on the power plant Minimum Functional Specifications, which have been distributed for quotation.

Construction and timeline

The 300MW power plant is targeting commercial operation in 2017. Based on industry experience, the Company has forecast a construction period of between 24 to 36 months, depending on the selected EPC firm. The mine construction is expected to take 24 months, with first production targeted in 2016, in order to stockpile coal supply for the power plant.

Power Plant Minimum Functional Specifications have been distributed to selected EPC firms for tender and to obtain more accurate capital expenditure quotes. Indicative proposals are expected during Q2 2013, after which a short list of preferred EPC bidders will be invited to submit binding, detailed bids during H2 2013. The binding bids will play a key role in completing the PPA and project funding.

Project funding

Ncondezi plans to develop the Project in partnership with a power plant developer and operator. As a base load electricity provider, the power plant is expected to generate a consistent and stable revenue stream and the Company has received strong indications of the potential availability of project finance, ranging from 70% to 85% debt financing.

It is envisaged that potential participation could include corporate and/or project equity, offtake and/or financing and construction capabilities.

Ncondezi is exploring a range of options and opportunities regarding strategic investors participating in the 300MW Project. These potential strategic investors range from strategic partners (IPPs, EPCs, O&Ms) infrastructure and emerging market funds and local Mozambican companies.

Roadmap to implementation
Key Work Streams for 300MW Project

Work stream	Timing
Power Framework Agreement with MoE	H1 2013
Integrated 300MW Project refined capital expenditure estimate	H1 2013
Coal supply agreement	H2 2013
Heads of Terms Power Purchase Agreement	H2 2013
Commence Power Plant Detailed Engineering	H2 2013
Commence Power Plant Financing	H2 2013
Selection of Owners Engineer	H2 2013
Selection of Operator & Maintenance Contractor	H1 2014
Selection of Power Plant EPC Contractor	H1 2014
Finalise 300MW Bankable Power Purchase Agreement	H2 2014
Mine Construction	H1 2015
Power Plant Construction	H1 2015
Mine Commissioning	2016
Power Plant Commissioning	2017

Ncondezi Export Coal Project

Since initiating the Mine DFS in Q3 2010, which envisaged a large scale, long life mining operation producing export grade coal products, the macro-economic environment has changed considerably and seaborne thermal coal prices have weakened significantly. The developing coal projects around Tete have not been immune to these changes and the large, capital intensive export rail and port infrastructure projects, primarily for coking coal projects, have developed more slowly than originally envisaged.

Whilst the Mine DFS confirmed the capability of a large scale, long life, open pit mining operation producing both domestic and export grade coal products, Ncondezi has decided to proceed with the development of its power project.

Production of an export thermal coal product and associated capital expenditure will be initiated only when rail and port infrastructure in Mozambique has sufficiently advanced. This approach has the dual benefit of a reduction in the start-up capital outlay for the mine and reduces Ncondezi's reliance on third party rail and port infrastructure development for project operations to begin.

Transport infrastructure agreement
In early 2012, Ncondezi signed an agreement with Rio Tinto Coal Mozambique, a wholly owned subsidiary of Rio Tinto plc ("Rio Tinto"), and Minas de Revuboè. The Agreement entitles Ncondezi to an export allocation on the Integrated Transport Development Project ("ITD Project"), which is a greenfield rail and port project, for its planned export coal production.

The ITD Project is under Feasibility Study, which is being led by Rio Tinto. The ITD Project represents a scalable solution with the potential to provide coal export capacity of between 25Mtpa and 100Mtpa, as well as provide broader economic and social benefits to the people and agricultural industries of Zambezia Province. The ITD Project has the potential to be a low cost rail transport option for exporting coal from the Tete Province, as it is expected to be the shortest rail distance to port and would utilise new and modern infrastructure to maximise economies of scale.

Under the terms of the Agreement, Ncondezi is not required to contribute capital to the ITD Project feasibility study or development capital costs, however Ncondezi will have the option to negotiate take-or-pay agreements with the ITD Project operator once a decision has been made to implement and develop the ITD Project.

Summary of Mine DFS
The Mine DFS was independently prepared by TWP Holdings (Pty) Ltd and confirmed the large scale, long life operational capability of an integrated mine and power operation. The Mine DFS envisaged an open pit, truck and shovel mining operation supplying domestic grade coal to an 1,800MW mine mouth power station and producing export grade thermal coal over a 25 year life of mine from only two of the six resource blocks on the Ncondezi Project license area.

The Mine DFS scope was designed to demonstrate the mine could support up to an 1,800MW power plant, ramped up in phases, with a 25 MJ/kg (NAR) export thermal coal product produced as a secondary product. However, as there are currently rail and infrastructure limitations for the export grade product, Ncondezi is focusing on developing a much smaller mining operation to produce only domestic grade coal to supply the power plant in the short to medium term.

Drilling programme and resource upgrade
During the first half of 2012 an infill drilling resource definition programme was conducted on the license areas to improve resource classification, resulting in 4,063m of additional drilling and bringing the total number of metres drilled to over 75,492m. A total of 36 HQ3 cored boreholes were drilled during the campaign. Previous geological modelling and resource estimation identified six discrete resource blocks within the Ncondezi Project area that contained coal at depths amenable to opencast mining. These blocks are the North, South, Central, East, West and River Blocks.

During the Mine DFS, optimisation studies were conducted on the North, South, East and Central Blocks and based on these findings detailed mine design were conducted for the North and South Blocks. These two blocks contain some 1,206 MTIS (mineable tonnes in situ) of which 62% is classified as Indicated Resources and the remaining 38% as Inferred. The Company's geological consultants, The Mineral Corporation (Pty) Ltd, produced JORC compliant resource estimations for all the resource blocks and these calculations were updated in Q4 2012 with the newly acquired data obtained by the 2012 drilling programme.

Social and environmental
ERM and Impacto have been appointed to conduct the Mine Environmental and Social Impact Assessments ("ESIA"), alongside Parsons Brinckerhoff and Impacto for the power plant ESIA. Work progressed well during the year, with no fatal flaws discovered. Extensive community engagement has been conducted with positive responses. The ESIAs are due for completion during Q3 2013.

Business review
Financial review

Results from operations
The Group made a loss after tax for the year of US$8.6m compared to a loss of US$7.0m for the previous financial year. The basic loss per share for the year was 7.1 cents (2011: 5.9 cents).

Administrative expenses totalled US$8.6m (2011: US$11.1m). This included a share-based payments charge of US$1.3m (2011: US$2.6m), impairment of exploration costs of US$Nil (2011: US$0.7m) and research expenses of US$Nil (2011: US$1.3m).

Financial position
The Group's statement of financial position at 31 December 2012 and comparatives at 31 December 2011 are summarised below:

	2012 US$'000	2011 US$'000
Non-current assets	**41,409**	31,155
Current assets	**15,064**	33,423
Total assets	**56,473**	64,578
Current liabilities	**2,687**	3,499
Total liabilities	**2,687**	3,499
Net assets	**53,786**	61,079

The movement in non-current assets of US$10.2m was largely due to an increase in intangible assets of US$10.5m and tangible assets of US$0.1m and resulted from the continued development of the Ncondezi Project, these were reduced by a depreciation charge for the year of US$0.3m.

The decrease in current assets of US$18.4m is attributable to a decrease in cash and cash equivalents.

Cash flows
The net cash outflow from operating activities for the year was US$8.6m (2011: US$9.3m).

Net cash used in investing activities was US$9.7m (2011: US$15.1m), including amounts of US$0.1m for property, plant and equipment (2011: US$1.0m) and US$9.7m on exploration activities (2011: US$14.2m) incurred on the Ncondezi Project.

The resulting year end cash and cash equivalents held totalled US$12.0m (2011: US$30.4m).

Outlook
The Directors have reviewed future cash forecasts, with particular reference to minimum expenditure requirements on the licences and the intended work programme for the 300MW Project for 2013, which is focused on advancing negotiations on the key commercial agreements, including signed Heads of Terms by year end.

The Group has sufficient funding to finance its activities through to March 2014. The Directors are in negotiations with a number of parties in respect of raising further funds to continue with the power plant development programme. Whilst progress is being made on a number of potential transactions that would provide additional financing, at present there are no binding agreements in place.

Based on the current progress of negotiations with potential providers of finance and discussions with potential investors, the Directors believe that the necessary funds to provide adequate financing to continue the power plant development programme will be raised as required. Accordingly they are confident that the Group will continue as a going concern and have prepared the financial statements on that basis.

Manish Kotecha
Chief Financial Officer

Business review
Resource summary

Summary

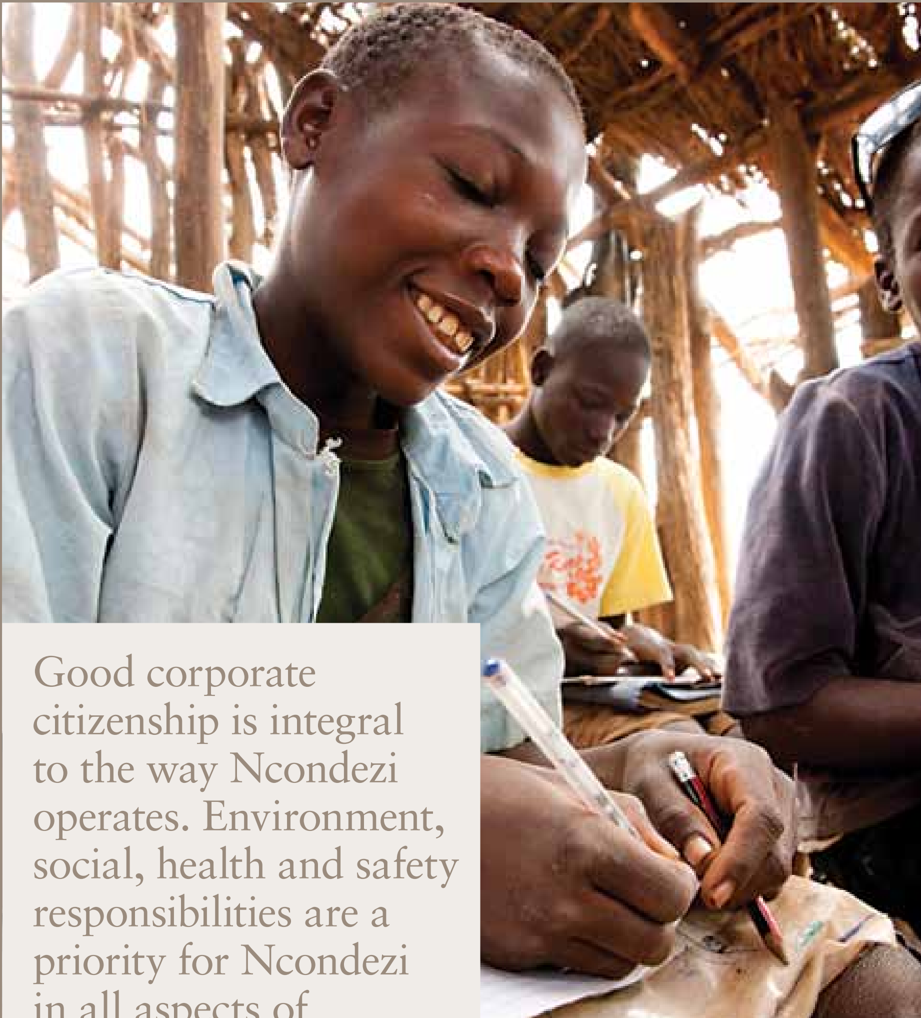
	Resource Category	GTIS Mt	TTIS Mt	MTIS Mt
High Volatile	Indicated	867	772.8	742.5
	Inferred	3,605.20	3,035.80	2,367.40
Low Volatile	Indicated	819.5	737.6	723.9
	Inferred	264.8	225.1	172.8
Sub-Total	Indicated	1,686.50	1,510.40	1,466.40
	Inferred	3,870.00	3,260.90	2,540.10
Total	Indicated & Inferred	5,556.60	4,771.30	4,006.50

		Raw Coal Qualities (air-dried basis)						
	Resource Category	RD	IM (%)	Ash (%)	VM (%)	FC (%)	CV (MJ/kg)	TS (%)
High Volatile	Indicated	1.85	1.4	53.5	18.1	27	13.83	1.01
	Inferred	1.94	1.9	57.7	18.6	21.9	11.79	1
Low Volatile	Indicated	1.91	1.9	51.8	7.5	38.7	12.73	0.88
	Inferred	1.92	1.8	52.1	7.6	38.5	12.78	0.83
Sub-Total	Indicated	1.88	1.7	52.7	12.9	32.8	13.29	0.94
	Inferred	1.94	1.9	57.4	17.8	23	11.86	0.99
Total	Indicated & Inferred	1.92	1.8	55.6	16	26.6	12.38	0.97

		17 MJ/kg Domestic Product						
	Resource Category	Yield (%)	IM (%)	Ash (%)	VM (%)	FC (%)	CV (MJ/kg)	TS (%)
High Volatile	Indicated	71.3	1.4	44.4	20.5	33.7	17.61	1.09
	Inferred	62.6	2	44.7	22.2	31.1	17.07	1.13
Low Volatile	Indicated	71.7	1.9	42.6	9.1	46.4	17.29	1.01
	Inferred	70.8	1.8	42.5	9	46.7	17.41	0.98
Sub-Total	Indicated	71.5	1.6	43.5	14.9	40	17.45	1.05
	Inferred	63.2	1.9	44.6	21.2	32.3	17.09	1.12
Total	Indicated & Inferred	66.2	1.9	44.2	18.9	35.0	17.22	1.09

Notes:
- Indicated resources were defined within areas where the spacing of boreholes with raw coal quality data is approximately 500 metres. Extrapolation of these areas was limited to approximately 250 metres.
- Inferred resources were defined within areas where the spacing of boreholes with raw coal quality data is approximately 2,000 metres. Extrapolation of these areas was limited to approximately 1,000 metres.
- GTIS (Gross Tonnage in situ) figures represent the entire classified resource for the block, below the observed limit of weathering, with application of a 0.5 metre minimum ply thickness cut-off, but no depth restriction.
- In the Central Block, classified resources reach approximately 400 metres depth; in the North Block 600 metres; in the South and West Blocks 300 metres, in the East Block 330 metres and in the River Block 500 metres.
- TTIS (Total Tonnage in situ) figures for high and low volatile coals were calculated from the GTIS tonnage by applying Geological Losses. The 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.
- MTIS (Mineable Tonnage in situ) figures represent that part of the TTIS which exists above a depth of 250 metres.
- All qualities are quoted on an air-dried basis.
- Product yields are theoretical yields for +0.5mm material derived from slim core samples.
- For the Central, North, South and East Blocks, ply thicknesses were weighted against MTIS coal seam area to obtain average resource ply thicknesses. Thicknesses for the River and West Blocks are not incorporated in the "Summary" table average ply thickness as plies have not been defined in those blocks.
- In the case of the West and River Blocks, average cumulative coal thickness was weighted against MTIS coal seam area to obtain the average resource cumulative coal thickness.
- RDs were weighted against MTIS coal volume to obtain average resource RDs.
- Raw qualities and product yields were weighted against MTIS tonnage to obtain average yields.
- Product qualities were weighted against wash yield and MTIS tonnage to obtain average resource qualities.
- Low Volatile coals have been devolatilised by igneous intrusions. Studies by Ncondezi indicate that these coals may be suitable for power generation.
- Low volatile coals are not common in the Central, West and River Blocks and have been excluded from resources.
- The Central, North, South and East Block models comprise detailed ply models suitable for mine planning purposes. The West and River Block models utilise a cumulative coal thickness methodology that is appropriate only to the classification of Inferred Resources.
- As hydrological studies have not yet been finalised, no allowance has been made for potential sterilisation of resources below the limits of the Ncondezi or Revuboe Rivers' flood lines. This could affect resources in the Central, North, West and River Blocks.
- Certain amounts of averaged "control" data were included in the quality database, particularly wash analyses of low volatile coal samples; further analytical work is planned in order to reduce dependency on the control data.

Business review
Environmental & Social Responsibility



Good corporate citizenship is integral to the way Ncondezi operates. Environment, social, health and safety responsibilities are a priority for Ncondezi in all aspects of its business.

Ncondezi's corporate social responsibility ("CSR") policy has been designed to promote social development projects that facilitate sustainable development and focus on community involvement. Ncondezi adheres to the Equator Principles, the IFC performance standards and to Mozambican legislative requirements.

Social Development Plan
A three year Social Development Plan ("SDP") is being implemented as a public-private partnership with the Company, the Government and the local communities actively participating. The SDP will benefit the local communities at the Ncondezi Project, the Moatize District and selected other communities in Tete and Mozambique. A total budget of US$2m has been allocated. Around US$340,000 was spent on social projects in 2012.

The objectives of the SDP include:
- Contribute to sustainable development in Mozambique
- Partner with the Mozambican Government in development efforts
- Create opportunities to share Ncondezi's success with local communities

The SDP will be made up of 10 social initiatives and is the result of extensive stakeholder consultation.

The government has described SDP as

"...unparalleled model of public-private partnership that fulfils the aspirations of the government and of the people of Mozambique which should be emulated by other companies..."

Manuel Guimarães, District Administrator of Moatize, 1 November 2012

Following the signing of an Interim Memorandum of Understanding with the Ministry of Mines in December 2011, the Tete Provincial Government reviewed and endorsed the SDP in July 2012. It was officially launched by the Tete Provincial Governor in January 2013 and will be implemented over the next three years, up to 2015. The specific initiatives to be implemented are currently under final review with the provincial and district government authorities.

Social projects

The table below shows the summary of the social projects undertaken, under way and planned within the approved SDP.

Social Project Completed (March 2011 – Dec 2012)

- Post-graduate students in Coimbra, Portugal (x2)[1]
- Built Meeting Centre for presidential visit[1]
- Support to SOS orphanage[1]
- Signage for Moatize District[1]
- Intuitional support to district[1]
- Bicycle Ambulances for villagers[1]
- Bicycle carriers for farmers[1]
- 10 water boreholes for villagers[1]

US$404,000

Social Projects Under way (Jan 2013 – Dec 2013)

- Post-graduate students in Coimbra, Portugal (x4) continued[1]
- Clinic rehabilitation in Mameme 2
- Ambulance for Ncondezi Ceta
- Intuitional support to district
- Medical kit for Ncondezi Ceta
- Two water boreholes for Ncondezi Ceta
- Water and sanitation Educational Programme
- Provincial Adult Literacy Campaign
- Agricultural Support scheme

US$340,000

Planned Projects (Jan 2014 – Dec 2014)

- Post-graduate students in Coimbra, Portugal (x2) continued
- Agricultural Support scheme continued
- Provincial Adult Literacy Campaign
- Health support to district
- Intuitional support to district
- Six water boreholes
- Technical School in Madamba

US$1,256,000

1 Completed projects as of December 2012.

In 2012, the number of post graduate bursary students in Coimbra, Portugal increased to four as two more mining engineering students joined the two geologists undertaking an MSc in Geology and Mining Engineering.

The SDP projects for the year included logistical support for the presidential visit, district signage and an administration vehicle and ten water boreholes for ten different communities in the Moatize district which will benefit an estimated 11,000 people.

The environment

The environmental work for 2012 was dominated by the ESIA studies for the mine and power plant. This included the review and finalisation stages of the mine ESIA, initiation of the power station ESIA and a preliminary resettlement plan. The ESIAs have been designed to meet both the Mozambique legislation requirements and international best practice.

Mine ESIA

ERM and Impacto conducted an ESIA of the proposed Ncondezi mine covering exploration licences 804L and 805L. All environmental baseline studies and monitoring were completed during the year and an ESIA report is being prepared for submission to the Ministry for Coordination of Environmental Action ("MICOA") in H1 2013. Thereafter an application for the environmental license for the Ncondezi Project will be prepared and will be submitted to MICOA, following acceptance of the ESIA by the authorities. An ESIA study report will also be compiled to meet international best practice requirements and to provide framework environmental and social management plans.

Resettlement Action Plan for Ncondezi Project

As part of the mine ESIA, an extensive resettlement assessment was undertaken that included the following:

i. Specialist studies as part of the ESIA
ii. Three workshops held in Mozambique and South Africa
iii. An internal resettlement planning project

The outcomes of the assessment were:

i. A comprehensive Resettlement Policy Framework
ii. A preliminary resettlement plan with full costings to resettle potentially affected families from two communities

Power Plant ESIA

Ncondezi commissioned Parsons Brinkerhoff and Impacto to conduct the ESIA for the proposed 300MW thermal power station, which was undertaken in parallel with the Feasibility Study. The ESIA has been progressing well with no fatal flaws identified. The first public consultation meetings were held in November 2012 in Tete and Moatize. A reconnaissance aerial tour of the proposed power evacuation route has been conducted by Parsons Brinkerhoff and Ncondezi personnel. Ncondezi also hosted a site visit by MICOA officials for a preliminary environmental feasibility assessment of the power plant location and the outcome was positive. The ESIA is due to be completed during H1 2013.

Corporate governance
Board of Directors

Michael Haworth
Non-Executive Chairman
(appointed 1 June 2012)
Michael Haworth was appointed to the Board as Non-Executive Chairman in June 2012. He is a Non-Executive Director of Zanaga Iron Ore Company Limited and is a Director of Strata Limited ("Strata"), a major shareholder of the Company.

Mr Haworth has over 12 years' investment banking experience, predominantly in emerging markets and natural resources. Prior to establishing Strata in 2006, Mr Haworth was a Managing Director at J.P. Morgan and Head of Mining and Metals Corporate Finance in London.

Paul Venter
Chief Executive Officer
(appointed 26 April 2013)
Paul Venter was appointed Chief Executive Officer in April 2013. He joined the Company as Chief Operating Officer in June 2012 and has been responsible for delivering the Company's power strategy. Mr Venter has over 39 years' experience across Africa, Mongolia, China and Russia in the mining, power generation and transport industries.

During his recent tenure as Vice President – Energy Operations at Prophecy Coal Corp, a TSX listed company, he was instrumental in the successful commissioning of the Ulaan Ovoo coal mine in Mongolia into production within six months after the acquisition of the asset. He also played a pivotal role in the development phases of the first coal fired Independent Power Producer in Mongolia.

Prior to this, Mr Venter held a number of senior positions within the coal industry, including Managing Director of EN+ Group's coal mining activities in Russia and senior executive positions in the coal divisions of Eskom, Gencor and Anglo American in South Africa.

Richard Stuart
Non-Executive Director
Richard Stuart has over 19 years' experience in corporate finance. He is also currently the Chairman of Strata, Ncondezi's largest shareholder. He was a partner in Martin & Co from 1978 and 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
Non-Executive Director
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. 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. Mr Pale has a postgraduate diploma in Mining Engineering from the Camborne School of Mines in Cornwall and a Masters degree in Financial Economics from the University of London (SOAS). He completed a course in Gas Business Management in Boston at the Institute of Human Resources Development Corporation in 2006.

Nigel Sutherland
Independent Non-Executive Director
Nigel Sutherland has spent over 35 years working internationally, particularly in South Africa, Australia and the former Soviet Union, in the resource sector. He is currently a director of Partners in Performance International ('PIP') and 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. Mr Sutherland has an MBA from the University of Cape Town and a Bachelor of Engineering (Metallurgy) from the University of Witwatersrand.

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.

Christiaan Schutte
Independent Non-Executive Director (appointed 4 February 2013)

Christiaan Schutte was appointed to the Board on 4 February 2013. Mr Schutte's career in the power sector spans over 20 years during which time he worked for Eskom, the South African electricity public utility which is the largest producer of electricity in Africa, and held a number of senior management positions.

Most recently he was Senior General Manager of the Group Technology Division and responsible for all the engineering functions at Eskom, including design accountability for new power stations, transmission lines and distribution development. Prior to this he was Senior General Manger of the Generation Division, managing five power stations with over 18,000MW total installed capacity, an operational budget of 3.8 billion Rand and a capital budget just under 4 billion Rand. Operational experience was gained at Majuba power station, which he also integrated into a single cluster operation, and Kendal power station. He holds a degree in mechanical engineering as well as an MBL from Unisa.

Peter O'Connor
Independent Non-Executive Director (appointed 4 February 2013)

Peter O'Connor was appointed to the Board on 4 February 2013. Mr O'Connor has over 20 years' experience in the power sector, working for Eskom, the South African electricity public utility which is the largest producer of electricity in Africa, an importer of electricity from Mozambique and is among the top seven utilities in the world in terms of generation capacity and among the top nine in terms of sales.

Most recently he was Senior General Manager of the Capital Expansion Division, which was responsible for the EPCM of all the company's generation and transmission expansion projects, as well as the construction of a 1050MW gas power station, which was built in record time. Prior to this, he held senior management positions in the Generation Division, where he successfully increased plant availability from 78% to 93% and at the Transmission Division, where he was responsible for the network delivery, network expansion and system operations. He gained operational experience as the manager of Kriel, Arnot and Kendal power stations. He holds a degree in mechanical engineering and is a patent lawyer.

Directors' report

The Directors present their Annual Report and the audited Group financial statements for the year ended 31 December 2012.

Principal activities
The principal activity of the Group is the development of an integrated open pit mine and 300MW power plant to produce and supply electricity to the Mozambican domestic market.

Business review and future developments
Details of the Group's business and expected future developments are set out in the Chairman's Statement on pages 4 and 5, the Operations review on pages 6 to 9 and in the Financial review on page 10.

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 18 to 22.

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:

	2012	2011	2010
Exploration expenditure (US$'000)	**10,565**	14,966	5,078
Metres drilled Ncondezi Project	**3,674**	39,333	20,653
Share price at 31 December (pence)	**24.00**	52.25	200.5
Cash at bank at 31 December (US$'000)	**12,008**	30,044	38,068

Results and dividends
The results of the Group for the year ended 31 December 2012 are set out on page 30.

The Directors do not recommend payment of a dividend for the year (2011: 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 2012	Ordinary Shares held 31 December 2011
Michael Haworth	**421,678**	201,678
Nigel Walls[1]	**373,889**	333,889
Richard Stuart	–	–
Graham Mascall	**386,130**	336,130
Estevão Pale	–	–
Nigel Sutherland	**32,785**	–
Colin Harris[2]	–	–
Mark Trevan	–	–

1 Resigned on 25 February 2013.
2 Resigned on 4 February 2013.

Michael Haworth and Richard Stuart are Directors of Strata Limited, which beneficially owns 54,289,641 Ordinary Shares, or 44.82% 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.

In accordance with the Company's Articles of Association one third of the Directors are required to retire by rotation. Accordingly, Mark Trevan and Nigel Sutherland will offer themselves for re-election at the forthcoming Annual General Meeting of the Company. The Company's Articles of Association also require any Director appointed to the Board during the financial year to retire and stand for re-election at the Annual General Meeting following appointment. Accordingly Mr Haworth, Mr O'Connor, Mr Schutte and Mr Venter will also retire and stand for re-election.

Corporate Governance
The Company's compliance with the principles of corporate governance is explained in the corporate governance statement on pages 23 to 25.

Ordinary Share Capital
The Company's Ordinary Shares of 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
27 June 2013

Risk factors

Transmission grid constraints

Potential Impact(s)	Mitigation Measure(s)
Available transmission capacity is allocated to other power generators.	Enter into negotiations with EdM and the Mozambican Government to ensure that available transmission infrastructure allocation is secured early and that proper evacuation infrastructure and capacities are available to the Power Project in line with the Group's strategy. Explore and develop all potential future transmission options including new transmission capacity in Mozambique as well as other countries including Malawi and Zambia. Currently the Group is ideally positioned to connect to new infrastructure build out, particularly the STE "backbone" transmission project which will connect the cities of Tete and Maputo adding +3,000MW of potential new capacity. The Group has already initiated discussions with both Government and EdM to be included in future allocation for this project, which is targeting commissioning by 2020. In addition, Malawi is looking to secure power from Mozambique and is not currently connected to the Mozambican grid. The Power Project is approximately 90km from Malawi's main substation.

Off-taker risk

Potential Impact(s)	Mitigation Measure(s)
The Group is unable to secure a credit worthy off-taker for the full output with the plant operating at load factors in excess of 80%.	Enter into early PPA negotiations with EdM and other potential credible power off-taker(s) prior to initiating proceedings to raise finance for the Power Project.

Use of CFB Technology

Potential Impact(s)	Mitigation Measure(s)
CFB technology has not been used in Mozambique as there are currently no coal fired power plants. Although CFB is proven technology, its application in Mozambique is new. Consequences may include not meeting guaranteed numbers in terms of plant output, efficiency and emission limits. Operator & Maintenance issues may arise if the Group is not familiar with this technology. This may have an impact on plant reliability and availability.	Rigorously review plant performance in the country of origin as well as in other countries where this technology is in use. Visit and discuss with Power Project Sponsors/users identical installation outside Mozambique to benefit from their experience. Actively participate in erection and commissioning activities during project execution. Embed in the EPC contractor's organisation the Group's own personnel during all phases of the project execution. Subject the power plant to rigorous pre-commissioning and commissioning tests as well as performance guarantee tests on completion.

Financial closure

Potential Impact(s)	Mitigation Measure(s)
The Group is unable to procure project financing, leading to failure of the project or a delay.	The Group will engage with a Financial Advisor at an early stage in the project development phase to ensure that the project is bankable.

Competition from other power stations in Mozambique

Potential Impact(s)	Mitigation Measure(s)
Other power stations are being developed in the Tete region and competing for similar resources such as water and transmission line servitudes.	The Group's power project is currently the only dedicated integrated power plant and mine project in Mozambique, maximising the Group's flexibility to develop the project. Being a thermal coal power station project, the Group can implement commissioning of the power plant faster than competing hydroelectric projects, which typically take two to three years longer to commission.

Performance risk

Potential Impact(s)	Mitigation Measure(s)
The power plant may be unable to perform as per the EPC proposal.	Performance warranties and guarantees will be required from the EPC contractor as part of the EPC contract, including liquidated damages for non-performance. The Minimum Functional Specification will define the operating characteristics, including the net capacity and operational criteria such as start-up response times, dynamic response, and minimum load etc.

River water resource risk

Potential Impact(s)	Mitigation Measure(s)
The Revúbuè and Ncondezi Rivers are seasonal, should there be insufficient water at the confluence (water extraction point), the power plant operation will fail.	Detailed water investigations are being performed to ascertain the quantity of water available to the Ncondezi Project (power plant and mine) and the required extraction rates. Investigations into the possibility of obtaining water from the Zambezi River as a more reliable source of water will be performed, should inadequate quantities be identified from the Revúbuè and Ncondezi Rivers.

Coal risk

Potential Impact(s)	Mitigation Measure(s)
Coal specification developed at the pre-feasibility study and verified during the feasibility stage may not be representative of coal to be used in the plant. Not properly characterised coal resources may lead to incorrect boiler design and plant underperformance.	Further coal quality analysis will be conducted and supplied to the boiler supplier for finalisation of boiler design.

Risk factors continued

Foreign country risk

Potential Impact(s)	Mitigation Measure(s)
The Group's exploration licences and project are in Mozambique. The Group faces political risk whereby changes in government policy or a change of governing political party could place its exploration licences and project in jeopardy.	The Mozambique government has been stable for many years and fosters a beneficial climate towards companies exploring for resources. It is not anticipated that this situation is likely to change.

Power plant location geotechnical risks

Potential Impact(s)	Mitigation Measure(s)
Improper geotech investigation may lead to increase in construction cost.	An initial geotechnical study was completed late in H2 2012 on the proposed power plant site. No fatal flaws were identified. Further work will be completed to reaffirm the geotechnical study results ahead of any major construction.

Utilities availability and transportation
(water, limestone, coal, accessibility, heavy loads transportation)

Potential Impact(s)	Mitigation Measure(s)
The cost of the infrastructure related to plant resources may increase if a proper assessment is not done.	Detailed utilities studies and surveys of the area and location to determine logistics associated with the supply of utilities are ongoing.

Landmines

Potential Impact(s)	Mitigation Measure(s)
Existence of landmines in the Tete region and specifically in the project area, which may lead to safety issues such as fatalities and injury.	A comprehensive demining exercise has cleared the project site of any landmine risks. However, additional work will be required around the areas of the power evacuation route once this route has been confirmed.

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Exploration and mining

Potential Impact(s)	Mitigation Measure(s)
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.	**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 practises • 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

Risk factors continued

Estimating mineral reserve and resource

Potential Impact(s)	Mitigation Measure(s)
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.	**Resources** • Sign off of resources by registered CP • Reporting resources in accordance 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** • Sign off of reserves by registered CP • Classification of reserves into proven or probable reserves • Detailed mine design and scheduling

Environmental and other regulatory requirements

Potential Impact(s)	Mitigation Measure(s)
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.	The Group adopts standards of international best practice in environmental management and community engagement in addition to focusing on 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 on both the power plant and mine projects.

Financing risk

Potential Impact(s)	Mitigation Measure(s)
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.	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 28. 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, (Michael Haworth), one Executive Director (Paul Venter) and seven further Non-Executive Directors (Graham Mascall, Richard Stuart, Estevão Pale, Nigel Sutherland, Mark Trevan, Christiaan Schutte and Peter O'Connor).

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

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

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

Conflicts of interest

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

(a) any matter which would otherwise result in a Director infringing his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company and which may reasonably be regarded as likely to give rise to a conflict of interest (including a conflict of interest and duty or conflict of duties);

(b) a Director to accept or continue in any office, employment or position in addition to his office as a Director of the Company and may authorise the manner in which a conflict of interest arising out of such office, employment or position may be dealt with, either before or at the time that such a conflict of interest arises provided that for this purpose the Director in question and any other interested Director are not counted in the quorum at any Board meeting at which such matter, or such office, employment or position, is approved and it is agreed to without their voting or would have been agreed to if their votes had not been counted.

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

Company materiality threshold

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

Ethical standards

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

- responsibilities to shareholders
- compliance with laws and regulations
- relations with customers and suppliers
- ethical responsibilities
- employment practices
- responsibility to the environment and the community.

Corporate governance statement continued

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 comprises 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 pages 26 and 27.

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.

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 months' or three months' written notice on either side.

Long-term incentive plan ("LTIP")
The Company adopted a LTIP which is administered by the Committee. The LTIP is discretionary and the Committee will decide whether to make share awards under the LTIP at any time. As at 31 December 2012 the following awards were in place:

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

Following the Company's change in focus to power generation and the signing of the Power Framework Agreement with the Government of Mozambique, the Board approved a restructuring of the existing share incentive scheme for Directors, senior management and contracted personnel to ensure it is appropriate for a developing energy producer. The scheme has been aligned with the power project milestones that will deliver the Ncondezi 300MW power project into commercial operation, as well as recognise the delivery of the key technical aspects of the project to date, such as the Power and Mine Definitive Feasibility Studies.

Grant of share awards
On 26 April 2013, 4,300,000 share options, with an exercise price of 17.25p and exercisable within three years of vesting, were granted to senior management and contracted personnel, of which 500,000 options vest as at the date of grant, 1,875,000 options are subject to milestone based vesting conditions ("Milestone Based Awards") and 1,925,000 options are subject to time based vesting conditions ("Time Based Awards"). Simultaneously it was agreed to cancel and/or lapse prior unexercised share awards in respect of 2,762,500 Ordinary Shares, with varying exercise prices between 59p and 143p.

The Milestone Based Awards provide that 1/3 of the Milestone Based Awards vest upon the successful conclusion with an offtaker of Heads of Terms for a Power Purchase Agreement and the other 2/3 of the Milestone Based Awards are to vest upon the execution of a Power Purchase Agreement for all or part of the first 300MW phase of the Ncondezi Power Project.

The Time Based Awards provide that the share options vest in two equal tranches on the first and second anniversary from the date of grant.

Directors' options
Paul Venter was granted 450,000 share options which are Milestone Based Awards and 550,000 share options which are Time Based Awards.

375,000 share options have been granted to certain Directors (see table below). Messrs Michael Haworth (Chairman), Richard Stuart (Non-Executive Director) and Graham Mascall (Non-Executive Director) have all waived any new share option awards.

Non-Executives	Options	Exercise Price	Expiry
Mark Trevan	75,000	17.25p	3 years from vesting
Nigel Sutherland	75,000	17.25p	3 years from vesting
Estevao Pale	75,000	17.25p	3 years from vesting
Peter O'Connor	75,000	17.25p	3 years from vesting
Christiaan Schutte	75,000	17.25p	3 years from vesting

These share options vest in two equal tranches on the first and second anniversary from the date of grant. It has also been agreed to cancel and/or lapse prior unexercised share awards granted to Directors in respect of 325,000 ordinary shares, with an exercise price of 123p. All of the cancelled share awards were granted at the Company's listing under the Company's LTIP and are fully vested.

Following the above restructuring of the Company's share incentive scheme, the newly issued and unexercised share awards will jointly represent 8.29% of the Company's current issued share capital.

Directors' service agreements
None of the Directors have 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 2012 for individual Directors who held office in the Company during the period.

Director	Base salary/fee US$'000	Bonus US$'000	Pension US$'000	Share-based payments US$'000	**Total 2012 US$'000**	Total 2011 US$'000
Michael Haworth	–	–	–	–	**–**	–
Nigel Walls	231	–	10	384	**625**	–
Richard Stuart	46	–	–	16	**62**	149
Graham Mascall	245	–	30	–	**275**	710
Estevão Pale	63	–	–	12	**75**	92
Nigel Sutherland[1]	63	–	–	12	**75**	92
Colin Harris	64	–	–	12	**76**	92
Mark Trevan	64	–	–	12	**76**	92
	776	–	40	448	**1,264**	1,227

1 This includes US$63,214 (2011: US$64,353) paid to Mines Value Management for services provided by Nigel Sutherland.

On behalf of the Remuneration Committee

Nigel Sutherland
Remuneration Committee Chairman
27 June 2013

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 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the 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.

This report is made solely to the Company's members, as a body in accordance with our engagement letter dated 16 January 2013. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' responsibility for the financial statements
As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the European Union and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (as issued by the International Federation of Accountants ("IFAC")). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design appropriate audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2012 and its loss for the year then ended; and
- have been prepared in accordance with IFRS as adopted by the European Union.

Emphasis of matter – going concern
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern which is dependent on the Group's ability to raise further funds through debt or new equity placing. The Directors believe that the Group will secure the necessary funds. While the Directors are continuing funding negotiations with certain third parties there are currently no binding agreements in place. These conditions together with the other matters referred to in note 1 indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

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

27 June 2013

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 2012

	Note	2012 US$'000	2011 US$'000
Other administrative expenses	3	(7,398)	(6,554)
Research expenses	3	97	(1,334)
Impairment of exploration costs	3	–	(656)
Share-based payments charge	3	(1,292)	(2,597)
Total administrative expenses and loss from operations		(8,593)	(11,141)
Finance income		88	43
Gain on derivative financial asset	15	–	4,166
Finance expense		(45)	(50)
Loss for the period before taxation		(8,550)	(6,982)
Taxation	4	(55)	(84)
Loss for the period attributable to equity shareholders of the Parent Company		(8,605)	(7,066)
Loss per share expressed in cents			
Basic and diluted	5	(7.1)	(5.9)

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	2012 US$'000	2011 US$'000
Loss after taxation	(8,605)	(7,066)
Other comprehensive income:		
Exchange differences on translating foreign operations	20	19
Total comprehensive income for the period	(8,585)	(7,047)

The notes on pages 34 to 51 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2012

	Note	2012 US$'000	2011 US$'000
Assets			
Non-current assets			
Intangible assets	6	**39,081**	28,563
Property, plant and equipment	7	**2,328**	2,592
Total non-current assets		**41,409**	31,155
Current assets			
Inventory		**26**	–
Trade and other receivables	9	**3,030**	2,979
Cash and cash equivalents	10	**12,008**	30,444
Total current assets		**15,064**	33,423
Total assets		**56,473**	64,578
Liabilities			
Current liabilities			
Current tax payable		**56**	81
Trade and other payables	11	**2,631**	3,418
Total current liabilities		**2,687**	3,499
Total liabilities		**2,687**	3,499
Capital and reserves attributable to shareholders			
Share capital	12	**76,108**	76,108
Foreign currency translation reserve		**44**	24
Retained earnings		**(22,366)**	(15,053)
Total capital and reserves		**53,786**	61,079
Total equity and liabilities		**56,473**	64,578

The financial statements were approved and authorised for issue by the Board of Directors on 27 June 2013 and were signed on its behalf by:

Paul Venter
Chief Executive Officer

The notes on pages 34 to 51 form part of these financial statements.

Consolidated statement of changes in equity
for the year ended at 31 December 2012

	Share capital US$'000	Foreign currency translation reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2012	**76,108**	**24**	**(15,053)**	**61,079**
Loss for the period	**–**	**–**	**(8,605)**	**(8,605)**
Other comprehensive income for the period	**–**	**20**	**–**	**20**
Equity settled share-based payments	**–**	**–**	**1,292**	**1,292**
At 31 December 2012	**76,108**	**44**	**(22,366)**	**53,786**

	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

The notes on pages 34 to 51 form part of these financial statements.

Consolidated statement of cash flows

for the year ended at 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Cash flow from operating activities			
Loss before taxation		**(8,550)**	(6,982)
Adjustments for:			
Finance income		**(88)**	(43)
Finance expense		**45**	50
Share-based payments charge	3	**1,292**	2,597
Derivative financial asset		**–**	(4,166)
Unrealised foreign exchange movements		**15**	5
Disposal of property, plant and equipment		**7**	14
Depreciation and amortisation		**427**	328
Net cash flow from operating activities before changes in working capital		**(6,852)**	(8,197)
Increase in inventory		**(26)**	–
(Decrease)/increase in payables		**(1,636)**	670
Increase in receivables		**(51)**	(1,707)
Net cash flow from operating activities before tax		**(8,565)**	(9,234)
Income taxes paid		**(80)**	(76)
Net cash flow from operating activities after tax		**(8,645)**	(9,310)
Investing activities			
Payments for property, plant and equipment	7	**(118)**	(958)
Payments for other intangibles	6	**–**	(46)
Interest received		**88**	43
Exploration costs capitalised	6	**(9,716)**	(14,166)
Net cash flow from investing activities		**(9,746)**	(15,127)
Financing activities			
Issue of Ordinary Shares		**–**	39,140
Bank charges		**(45)**	(50)
Cost of share issue		**–**	(1,399)
Share buy-back		**–**	(20,878)
Net cash flow from financing activities		**(45)**	16,813
Net decrease in cash and cash equivalents in the period		**(18,436)**	(7,624)
Cash and cash equivalents at the beginning of the period		**30,444**	38,068
Effect of foreign exchange rate changes on cash and cash equivalents		**–**	–
Cash and cash equivalents at the end of the period		**12,008**	30,444

The notes on pages 34 to 51 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.

Going concern

In the absence of production revenues, the Group is dependent upon its existing cash resources and its ability to raise additional financing through equity raisings in order to progress with the development of the power plant.

The Group has sufficient funding to finance its activities through to March 2014. The Directors are in negotiations with a number of parties in respect of raising further funds to continue with the power plant development programme. Whilst progress is being made on a number of potential transactions that would provide additional financing, at present there are no binding agreements in place.

Should the Group be unable to raise the necessary finance, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Based on the current progress of negotiations with potential providers of finance and discussions with potential investors, the Directors believe that the necessary funds to provide adequate financing to continue the power plant development programme will be raised as required. Accordingly they are confident that the Group will continue as a going concern and have prepared the financial statements on that basis.

These conditions indicate the existence of a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was not able to continue as a going concern.

As at 31 December 2012 the Group's cash and cash equivalent stood at US$12m. The Group intends to operate within its cash resources.

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.

Adoption of new and revised accounting standards

In 2012, several amended standards and interpretations became effective. These are IFRS 7 (amended) "Disclosures – transfers of financial assets", IFRS 1 (amended) "Severe hyperinflation and removal of fixed dates for first-time adopters" and IAS 12 (amended) "Deferred tax: recovery of underlying assets". The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group.

At the date of authorisation of these financial statements, the following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU):

- IFRS 1 (amended) "Government loans" – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 7 (amended) "Disclosures: Offsetting financial assets and financial liabilities" – effective for accounting periods beginning on or after 1 January 2013.

1. Principal accounting policies continued

- IFRS 9 "Financial instruments – Classification and measurement" – effective for accounting periods beginning on or after 1 January 2015.
- IFRS 10 "Consolidated financial statements" – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 11 "Joint arrangements" – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 12 "Disclosure of interests in other entities" – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 13 "Fair value measurement" – effective for accounting periods beginning on or after 1 January 2013.
- IAS 1 (amended) "Presentation of financial statements – other comprehensive income" – effective for accounting periods beginning on or after 1 July 2012.
- IAS 19 (revised) "Employee benefits" – effective for accounting periods beginning on or after 1 January 2013.
- IAS 27 (revised) "Separate financial statements" – effective for accounting periods beginning on or after 1 January 2013.
- IAS 28 (revised) "Investments in associates and joint ventures" – effective for accounting periods beginning on or after 1 January 2013.
- IAS 32 (amended) "Offsetting financial assets and financial liabilities" – effective for accounting periods beginning on or after 1 January 2014.
- Annual improvements to IFRS 2009–2011 cycle (various standards) – effective for accounting periods beginning on or after 1 January 2013.

The Group is yet to assess the full impact of adoption of IFRS 9 and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU.

Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group.

Basis of consolidation

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

Segmental reporting

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

Share-based payments

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

The fair value of the equity instrument is measured using the Black-Scholes model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and 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%
Buildings	10%

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.

Notes to the consolidated financial statements continued

1. Principal accounting policies continued

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, the Mozambican and Mauritian subsidiaries 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.

1. Principal accounting policies continued

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.

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.

Inventory
Inventories relate to fuel stocks and are valued at the lower of the average cost and net realisable value.

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 at fair value through profit or loss and 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:

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 consolidated statement of financial position 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 17.

Accounting estimates

(i) Provisions for liabilities

As a result of exploration activities the Group is required to make a provision for rehabilitation. The Group's exploration activities were largely completed during the year however, no further development work has taken place and as such 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

	2012 US$'000	2011 US$'000
Staff costs	**2,712**	2,761
Professional and consultancy	**1,296**	1,167
Office expenses	**934**	1,094
Travel and accommodation	**682**	1,130
Other expenses	**1,455**	1,035
Foreign exchange loss/(gain)	**319**	(633)
Other administrative expenses	**7,398**	6,554
Research expenses[1]	**(97)**	1,334
Impairment of exploration costs[2]	**–**	656
Share-based payments	**1,292**	2,597
Total administrative expenses	**8,593**	11,141

1 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. The positive charge in the year is a result of an over accrual in respect of the infrastructure study.
2 Impairment of exploration costs in 2011 relates to the write off of the exploration costs incurred in respect of licences 1314L and 1315L which were considered to be of no further commercial value to the Group and a decision was made to relinquish these licences (note 6).

Auditors' remuneration

	2012 US$'000	2011 US$'000
Group auditors' remuneration		
– audit of the Group's accounts	**80**	69
– audit of the Group's subsidiaries	**40**	23
Other services		
– other services relating to taxation	**–**	9
	120	101

Staff costs (including Directors)

	2012 US$'000	2011 US$'000
Wages and salaries	**3,794**	5,332
Share-based payments	**1,292**	2,597
Social security costs	**226**	247
	5,120	8,176

US$1,308,247 (2011: US$2,817,914) 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:

	2012 Number	2011 Number
Operational	**24**	24
Administration	**24**	20
	48	44

Notes to the consolidated financial statements continued

3. Administrative expenses continued

Key management compensation:

	2012 US$'000	2011 US$'000
Salary	**1,503**	1,765
Fees	**139**	–
Social security costs	**157**	235
	1,799	2,000
Pension	**52**	82
Share-based payments	**920**	1,838
	2,771	3,920

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% (2011: 32%) on its profits in Mozambique and Ncondezi Services (UK) Limited which is subject to tax at a rate of 24% (2011: 26%) 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 2012 has been estimated at US$55,000 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:

	2012 US$'000	2011 US$'000
Current tax – UK corporation tax	**55**	84
Group loss on ordinary activities before tax	**(8,550)**	(6,982)
Effects of:		
Reconcile to UK corporation tax rate of 24.5% (2011: 26%)	**(2,095)**	(1,815)
Differences arising from different tax jurisdictions	**1,136**	1,081
Non-deductible expenses	**131**	195
Foreign exchange effect originating in overseas companies	**243**	101
Unrecognised taxable losses carried forward	**640**	522
Total tax charge for the year	**55**	84

During the exploration and development stages, the Group will accumulate tax losses which may be carried forward. As at 31 December 2012, no deferred tax asset has been recognised for tax losses of US$1,442,000 (2011: US$802,000) 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$640,000 will be available until 31 December 2017, US$522,000 will be available until 31 December 2016, and US$280,000 will be available until 31 December 2015.

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.

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 (2011: Nil).

	2012			2011		
	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	**(8,605)**	**121,116**	**(7.1)**	(7,066)	120,473	(5.9)

6. Intangible assets

	Exploration and evaluation costs US$'000	Other intangible assets US$'000	Total US$'000
Cost			
At 1 January 2012	**28,459**	**149**	**28,608**
Additions	**10,565**	**–**	**10,565**
Impairment	**–**	**–**	**–**
Foreign exchange	**–**	**5**	**5**
At 31 December 2012	**39,024**	**154**	**39,178**
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
Amortisation			
At 1 January 2012	**–**	**45**	**45**
Amortisation charge	**–**	**52**	**52**
At 31 December 2012	**–**	**97**	**97**
Net Book value 2012	**39,024**	**57**	**39,081**
Net Book value 2011	28,459	104	28,563
Net book value 2010	13,493	93	13,586

Exploration and evaluation costs relate to the initial acquisition of the licences and subsequent exploration expenditure incurred in evaluating the Ncondezi project.

The impairment in 2011 related to exploration and evaluation costs 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 were no longer considered to be of any commercial value to the Group. Consequently a decision was made to relinquish the licences 1314L and 1315L and the related costs were written off to the income statement in 2011 (note 3).

Notes to the consolidated financial statements continued

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 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 1 January 2012	**–**	**1,757**	**489**	**229**	**27**	**454**	**2,956**
Additions	**–**	**–**	**37**	**11**	**–**	**70**	**118**
Disposals	**–**	**–**	**(13)**	**(2)**	**–**	**–**	**(15)**
At 31 December 2012	**–**	**1,757**	**513**	**238**	**27**	**524**	**3,059**
Depreciation							
At 1 January 2011	–	–	21	12	7	38	78
Depreciation charge	–	59	61	72	5	96	293
Disposals	–	–	–	–	(4)	(3)	(7)
At 1 January 2012	**–**	**59**	**82**	**84**	**8**	**131**	**364**
Depreciation charge	–	75	85	83	3	129	375
Disposals	–	–	(6)	(2)	–	–	(8)
At 31 December 2012	**–**	**134**	**163**	**165**	**11**	**260**	**731**
Net Book value 2012	**–**	**1,623**	**352**	**73**	**16**	**264**	**2,328**
Net Book value 2011	–	1,698	407	145	19	323	2,592
Net book value 2010	1,358	–	296	34	26	228	1,942

8. Subsidiaries

The Group has the following subsidiary undertakings:

		% interest 2012	% interest 2011	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 Power Holdings Limited	"NPHL"	100	–	Mauritius	Holding company
Ncondezi Power Company Limitada	"NPCL"	100	–	Mozambique	Energy 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.

Ncondezi Power Company Limitada is owned by Zambezi Energy Corporation Holdings 2 Limited and Ncondezi Power Holdings Limited.

9. Trade and other receivables

	2012 US$'000	2011 US$'000
Current assets:		
Other receivables	3,030	2,979
Total trade and other receivables	3,030	2,979

Included within other receivables is US$2,682,067 (2011: US$2,530,981) in respect of VAT recoverable in Mozambique.

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

10. Cash and cash equivalents

	2012 US$'000	2011 US$'000
Cash at bank and in hand	12,008	30,444
	12,008	30,444

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

	2012 US$'000	2011 US$'000
US dollars	9,170	28,946
Great British pounds	1,131	1,472
South African rand	1,651	–
Mozambique meticais	56	26
	12,008	30,444

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

11. Trade and other payables

	2012 US$'000	2011 US$'000
Other payables	1,057	2,223
Other taxation and social security	93	464
Accruals and deferred income	1,481	731
	2,631	3,418

Included within other taxation and social security is US$Nil (2011: US$372,892) 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	2012	2011
Ordinary shares of no par value	121,115,682	121,115,682

	Shares issued Number	Share capital US$'000
At 1 January 2012	121,115,682	76,108
At 31 December 2012	121,115,682	76,108

Notes to the consolidated financial statements continued

12. Share capital continued

Number of shares allotted, called up and fully paid	Shares issued Number	Share capital US$'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

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
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 or unapproved share option scheme at any time.

Long-term incentive plan
At 31 December 2012 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 2012 was 24p (31 December 2011: 52.25p). The highest and lowest mid-market closing share prices during the year were 66.50p (2011: 230.50p) and 19.13p (2011: 51.50p) respectively.

There were no share awards issued during the year.

14. Share-based payments continued

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:

	Share price at date of grant	Exercise price per share	Volatility	Period likely to exercise	Risk-free investment	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.

Unapproved share option scheme

At 31 December 2012 the following share awards were outstanding:

Year of grant	Number of options shares	Start date	Vesting date	End date	Exercise price per share
2012	712,500	19.01.2012	19.01.2013	18.01.22	59p (90.67c)
2012	775,000	19.01.2012	30.09.2012	18.01.22	59p (90.67c)
2012	500,000	19.06.2012	19.06.2013	18.06.22	30.5p (47.83c)

The Company's mid-market closing share price at 31 December 2012 was 24p (31 December 2011: 52.25p). The highest and lowest mid-market closing share prices during the year were 66.50p (2011: 230.50p) and 19.13p (2011: 51.50p) respectively.

The fair value of the 1,987,500 share awards granted under the Group's unapproved share option scheme has been calculated using the Black-Scholes model and spread over the vesting period. The following principal assumptions were used in the valuation:

	Share price at date of grant	Exercise price per share	Volatility	Period likely to exercise over	Risk-free investment rate	Fair value
19.01.12	90.67c	90.67c	50%	5 years	0.9%	39.63c
19.01.12[1]	90.67c	90.67c	50%	5 years	0.9%	34.67c
19.06.12	47.83c	47.83c	50%	5 years	0.7%	20.76c

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 50% was calculated using the share price of a similar company with coal assets in Mozambique.

Based on the above fair values, the expense arising from equity-settled share options made to employees and Directors was US$1,292,271 for the year (2011: US$2,597,325).

Notes to the consolidated financial statements continued

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).

As the Call Option was priced in Pound sterling whilst the functional currency of the Company is US dollar it was treated as a derivative financial asset with corresponding increase in equity, and was 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 in 2011 was US$21,270,000. It was calculated using the Black-Scholes model with the following principal assumptions used in the valuation:

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

There was no gain recognised during the year. In 2011 a gain of US$4,166,000 was recognised in the consolidated income statement in respect of the fair value movement of the derivative financial asset.

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 development of power supply project
- 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 2012 are as follows:

Income statement	**Exploration US$'000**	**Corporate US$'000**	**Group US$'000**
For the year ended 31 December 2012			
Segment result before and after allocation of central costs	**(3,369)**	**(5,224)**	**(8,593)**
Finance expense	**(18)**	**(27)**	**(45)**
Finance income	**1**	**87**	**88**
Loss before taxation	**(3,386)**	**(5,164)**	**(8,550)**
Taxation	**–**	**(55)**	**(55)**
Loss for the year	**(3,386)**	**(5,219)**	**(8,605)**

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)

16. Segmental analysis continued

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 2012			
Depreciation charged to the income statement	**(356)**	**(71)**	**(427)**
Share-based payments	**–**	**(1,292)**	**(1,292)**
Income tax expense	**–**	**(55)**	**(55)**

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)

The segment assets and liabilities at 31 December 2012 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 2012			
Segment assets	41,101	15,372	56,473
Segment liabilities	(2,230)	(457)	(2,687)
Segment net assets	38,871	14,916	53,786
Property, plant and equipment capital expenditure	116	2	118
Exploration capital expenditure	10,565	–	10,565

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

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.

Notes to the consolidated financial statements continued

17. Financial instruments continued

Principal financial instruments

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

	2012 US$'000	2011 US$'000
Loans and receivables at amortised cost		
Trade and other receivables	**348**	448
Cash and cash equivalents	**12,008**	30,444
Financial liabilities held at amortised cost		
Trade and other payables	**2,538**	2,954

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

Liquidity risk

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

2012	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	**2,538**	–	**2,538**	–	–	–

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	–	–	–

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 2012 (2011: Nil).

Market risk

The Group does not currently sell any electricity. As such there is no specific market risk at the date of this report. However, there is a risk that the Group is unable to secure a credit-worthy off-taker for the full output of the power plant, with the plant operating at load factors in excess of 80%.

17. Financial instruments continued

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, GB pounds and ZAR will increase net assets by US$198,614 (2011: US$191,258).

Currency exposures

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

	2012 US$'000 Assets/(liabilities) held					2011 US$'000 Assets/(liabilities) held			
	USD	GBP	ZAR	MZN	Total	USD	GBP	MZN	Total
US dollars	8,388	823	2,783	392	12,386	27,159	626	2,684	30,469
	8,388	823	2,783	392	12,386	27,159	626	2,684	30,469

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	
	2012 US$'000	2011 US$'000
Opening balance	–	17,104
Additions	–	–
Net gains recognised in income statement	–	4,166
Disposal	–	(21,270)
Closing balance	–	–

Notes to the consolidated financial statements continued

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 2012 and 31 December 2011 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.

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 2012 Strata held 44.82% of the Company.

Strata Capital UK LLP

Strata Capital UK LLP charged the Company US$118,650 (2011: US$160,756) in respect of legal services.

MMDN Financial Services LLP ("MMDN")

During the year MMDN a firm which Manish Kotecha is a partner charged the Company US$4,975 (2011: US$36,681) in respect of financial services. The balance outstanding at 31 December 2012 was US$380 (2011: US$370).

Mines Value Management

During the year US$63,213 (2011: US$64,353) was paid to Mines Value Management in respect of services provided by Nigel Sutherland.

PIP Global IP Limited "PIP"

During the year PIP a company of which Nigel Sutherland is a Director, provided an independent mine plan and cost review on the Company's feasibility study. The total charge was US$287,561 (2011: US$Nil).

Graham Mascall

During the year Graham Mascall charged the company US$139,280 (2011: US$Nil) for consulting services.

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$350,049 (£216,505).

Future minimum lease payments under non-cancellable operating leases as at 31 December 2012 are as follows:

	2012 US$'000	2011 US$'000
Within one year	**350**	335
After one year but not more than five years	**350**	670
Minimum lease payments	**700**	1,005

21. Commitments

In December 2011 a Memorandum of Understanding was signed with the Ministry of Mineral Resources in respect of a three-year Social Development Programme, with a committed spend of US$2m. During the year US$340,000 was spent as part of this programme.

22. Events after the reporting date

On 26 April 2013 the Company granted 4,300,000 share options to its senior management and contracted personnel of which 500,000 options vest as at the date of grant, 1,875,000 options are subject to milestone based vesting conditions ("Milestone Based Awards") and 1,925,000 options are subject to time based vesting conditions ("Time Based Awards"). The options have an exercise price of 17.25p and are exercisable within three years of vesting. Simultaneously it has been agreed to cancel and/or lapse prior unexercised share awards in respect of 2,762,500 Ordinary Shares, with varying exercise prices between 59p and 143p.

The Milestone Based Awards provide that 1/3 of the Milestone Based Awards vest upon the successful conclusion with an offtaker of Heads of Terms for a Power Purchase Agreement and the other 2/3 of the Milestone Based Awards are to vest upon the execution of a Power Purchase Agreement for all or part of the first 300MW phase of the Ncondezi Power Project.

The Time Based Awards provide that the share options vest in two equal tranches on the first and second anniversary from the date of grant.

Company information

Directors	Michael Haworth (Non-Executive Chairman) Paul Venter (Chief Executive Officer) Christiaan Schutte (Non-Executive Director) Peter O'Connor (Non-Executive Director) Graham Mascall (Non-Executive Director) Richard Stuart (Non-Executive Director) Estevão Pale (Non-Executive Director) Nigel Sutherland (Non-Executive Director) Mark Trevan (Non-Executive Director)
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Joint Broker	finnCap 60 New Broad Street London EC2M 1JJ
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Registrar	Computershare Investor Services (BVI) Limited Woodbourne Hall PO Box 3162 Road Town Tortola British Virgin Islands
Legal advisor to the Company as to BVI law	Ogier LLP 41 Lothbury London EC2R 7HF
Legal advisor to the Company as to English law	Berwin Leighton Paisner LLP Adelaide House London Bridge London EC4R 9HA

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