



Ncondezi Energy Limited
Annual Report and Financial Statements
for the year ended 31 December 2014

Contents

1	Overview and Highlights
2 - 3	Chairman's Statement
4 - 5	Operations Review
6	Financial Review
7 - 9	Resource Summary
10	Environmental and Social Responsibility
11 - 12	Directors' Biographies
13 - 14	Directors' Report
15 - 18	Risk Factors
19 - 21	Corporate Governance Statement
22 - 23	Report of the Remuneration Committee
24	Statement of Directors' Responsibilities
25 - 26	Independent audit report to the members of Ncondezi Energy Limited
27	Consolidated statement of profit or loss and other comprehensive income
28	Consolidated statement of financial position
29	Consolidated statement of changes in equity
30	Consolidated statement of cash flows
31 – 54	Notes to the consolidated financial statements
55	Company Information

Overview & Highlights

Our Vision

Ncondezi Energy is an emerging power development company with an integrated thermal coal mine and power plant project located near Tete in northern Mozambique (the “Ncondezi Project”). Ncondezi is aiming to develop the project in phases, subject to additional financing, with the first phase targeting 300MW and ultimately scalable to 1,800MW.

Visit www.ncondezienergy.com for regular updates and additional information on the Company and its activities.

Project Achievements

- Power plant binding EPC bids received
- Binding bids received for mine contractor turnkey solution
- Commercial deal agreed with Electricidade de Mozambique (“EDM”) on the sale of electricity from the Ncondezi Power Plant
- Power Purchase Agreement and Power Concession Agreement substantially advanced
- Binding bids received for transmission line contractor turnkey solution
- Land use agreement for power plant received from Mozambican Government

Corporate Highlights

- Raised £3.18 million (US\$5 million) from African Finance Corporation (“AFC”) in December 2014
- Non-binding Memorandum of Understanding signed with Shanghai Electric Power Company Limited (“SEP”). Negotiations continue with SEP, the Company’s existing shareholders and other financial and strategic investors
- £0.76 million (US\$1.16 million) raised via an Open Offer following the placing to AFC in January 2015
- Christiaan Schutte appointed Chief Operating Officer in February 2015
- Aman Sachdeva appointed Non-Executive Director in May 2015 as AFC’s nominated director
- On 21 May 2015, Paul Venter resigned as a Director and Chief Executive Officer
- Cash balance as at 5 June 2015 of US\$2.2 million

Chairman's Statement

Dear Shareholder,

During the 2014 financial year, the Company progressed the on-going development of its 300MW integrated thermal coal mine and power plant project which is located near Tete in Northern Mozambique (the "Ncondezi Project").

The main focus for Ncondezi during 2014 was to advance the key commercial power plant agreements with both the Mozambican Ministry of Mineral Resources and Energy ("MMRE") and the state power utility Electricidade de Mozambique ("EDM"). Negotiations on the Power Purchase Agreement ("PPA") and Power Concession Agreement ("PCA") began in January 2014 and both documents have been extensively negotiated between EDM, the MMRE and Ncondezi.

In March 2014, Ncondezi announced that it had received a number of binding Engineering, Procurement and Construction ("EPC") bids to provide turnkey contracts to build both the power plant and mine projects. These binding EPC bids provided an important basis to finalise the electricity tariff negotiations with EDM.

In September 2014, the Company announced that it had reached a conditional commercial deal with EDM on the sale of electricity from the Ncondezi Project. The agreed commercial deal includes the range for the starting electricity tariff to be paid by EDM, which will then be subject to adjustments during the 25 year operational life of the Ncondezi Project. The starting tariff range is based on a number of assumptions including indexation, financing costs, coal costs, operator & maintenance costs and the technical parameters and capital costs contained in the binding Power Plant EPC bids. Based on a target project capital structure of 70 per cent. debt and 30 per cent. equity, the Company believes that the conditional commercial deal supports the economics of the Ncondezi Power Plant and provides a regionally competitive US\$ based project equity IRR.

The Company has been working to satisfy the conditions precedent of the commercial deal and agree a provisional timetable to financial close with EDM. Notwithstanding the progress that was made, the conditions precedent for the commercial deal were not met prior to the end of 2014 and in March 2015 the Company received an extension from EDM until 30 September 2015 to satisfy the conditions precedent.

Ncondezi has been working with a number of international power companies to explore the potential for investment in both the power project and the mine project as part of its strategic partner process. In October 2014, Ncondezi signed a non-binding Memorandum of Understanding ("MoU") with Shanghai Electric Power Company Limited ("SEP"). Negotiations with SEP have taken longer than agreed and the Company continues to engage with SEP, its existing shareholders and other financial and strategic investors.

In October 2014, the Company received a number of binding EPC bids on the 92km transmission line and substations to connect the Ncondezi Project to the Mozambican Northern Grid. These bids are currently under evaluation.

On 18 December 2014, the Company completed a placing to African Finance Corporation ("AFC") of 54,998,520 new Ordinary Shares in the Company which raised £3.18 million (US\$5 million) before expenses. AFC is a leading African-led multilateral development financial institution which has significant experience of investing in African power and infrastructure projects. Recently AFC announced the ground breaking of the US\$900 million Kpone Independent Power Project ("Kpone IPP") in Ghana, implemented by the Cenpower Generation Company Limited. The Kpone IPP reached Financial Close in December 2014 and is a 350MW, light crude oil and gas fired, combined cycle power plant. AFC is the lead project developer, mandated lead arranger and largest equity investor in the Kpone IPP. We are very pleased to have AFC as a significant shareholder in Ncondezi and look forward to working with them and leveraging their experience and expertise to successfully deliver the Ncondezi Project.

Chairman's Statement

On 12 January 2015, the Company announced that it had raised an additional £0.76 million (US\$1.16 million) through the Open Offer that was conducted following the placing to AFC. The intention of the Open Offer was to allow existing shareholders to acquire further shares in the Company at the same price as AFC and which allowed shareholders to reduce their dilution from the AFC placing. The net proceeds of the placing and open offer has ensured that the Company is funded into Q1 2016.

The Directors are in negotiations with a number of parties in respect of raising further funds to continue with the development programme of the Ncondezi Project. If a transaction with a potential co-developer or strategic partner is concluded as currently targeted during 2015, the Group will have sufficient funds to continue with the full development programme of the Ncondezi Project. 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 and fund working capital 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.

During 2014, as a result of the continued decline in global thermal coal prices and the commercial deal with EDM, Ncondezi wrote down the value of its coal asset by US\$31.8 million. The carrying value of the coal asset now reflects the value of the coal resource that will supply the Ncondezi 300MW power station.

In February 2015, Christiaan Schutte agreed to become the Chief Operations Officer and Executive Director. Christiaan has been on the Board of Ncondezi since February 2013 and has extensive experience in the building of and operation of power stations in South Africa having held senior positions at Eskom in both the engineering and generation divisions. Christiaan's appointment significantly enhances Ncondezi's in house technical expertise.

In May 2015, the Company announced that Paul Venter was stepping down as a Director and Chief Executive Officer. Paul led Ncondezi's transition from a mining company to a power development company and I would like to take this opportunity to thank Paul for his efforts and wish him well for the future.

Also in May 2015, the Company announced that Aman Sachdeva has been appointed as a Non-Executive Director of Ncondezi and will act as AFC's nominated director. Aman brings a wealth of project finance and power expertise and we welcome his appointment and look forward to working with him.

Despite the extremely challenging coal and equity market conditions, Ncondezi continues to advance the Ncondezi Project and continues to target meeting the conditions precedent to the commercial deal with EDM and securing a strategic partner for the Ncondezi Project. Progress was achieved during 2014 and we intend to build on this in 2015 for the benefit of Ncondezi shareholders and all stakeholders.

Michael Haworth
Non-Executive Chairman

Operations Review

Ncondezi is focused on the phased development of an integrated thermal coal fired power plant and mine, commencing with 300MW as Phase 1. The Ncondezi Project is located near Tete in Northern Mozambique.

Commercial Deal with EDM

In September 2014, the Company announced that it had reached a conditional commercial deal with EDM on the sale of electricity from the Ncondezi Project. The agreed commercial deal includes the range for the starting electricity tariff to be paid by EDM, which will then be subject to adjustments during the 25 year operational life of the Ncondezi Project. The starting tariff range is based on a number of assumptions including indexation, financing costs, coal costs, operator and maintenance costs and the technical parameters and capital costs contained in the binding power plant EPC bids. Based on a target project capital structure of 70% debt and 30% equity the Company believes that the conditional commercial deal supports the economics of the Ncondezi Power Plant and provides a regionally competitive US\$ based project equity IRR.

Ncondezi has been working to satisfy the commercial deal conditions precedent and agree with EDM an indicative timetable to Financial Close. In March 2015, EDM granted the Company an extension until 30 September 2015 to satisfy the conditions precedent.

The commercial deal was the result of negotiations during 2014 between Ncondezi, EDM and the MMRE on critical matters to the Ncondezi Project's viability, including the structure and content of key project agreements (in particular the PPA and the PCA), the PPA tariff (level, structure and indexation) and the terms of credit support to be provided for the Ncondezi Project.

Power Plant EPC Process

In March 2014, the Company announced that it had received four bids from internationally recognised firms for the EPC contract for its 300MW power plant project. The bidders all submitted fixed price lump sum turnkey contracts for the engineering, procurement, construction and commissioning of a 300MW power plant consisting of two 150MW generating units using Circulating Fluidised Bed ("CFB") technology.

The initial evaluation of the bids has confirmed that the power plant's capital costs and build times are in line with expectations previously announced to the market, and that project financing up to 85% of the EPC contract price may be achievable. The EPC's project capital expenditure binding quotes form a key basis for the PPA tariff.

Common Infrastructure Tender Processes

The common infrastructure tender process commenced in Q1 2014 and included infrastructure that will be shared between the mine and the power plant including, but not limited to, accommodation and other service buildings, water services, electrical reticulation, roads and general earthworks. Work in relation to the common infrastructure is continuing.

Strategic Partner Selection

In October 2014, the Company announced that it had entered into a non-binding MOU with SEP, which may lead to SEP becoming a strategic shareholder in the power project. Negotiations with SEP have taken longer than agreed and the Company continues to engage with SEP, its existing shareholders and other financial and strategic investors.

In December 2014, AFC became a strategic investor in Ncondezi with a 22% shareholding as at 31 May 2015. AFC is a leading African-led multilateral development financial institution which has significant experience of investing in African power and infrastructure projects. Recently AFC announced the ground breaking of the US\$900 million Kpone IPP in Ghana, implemented by the Cenpower Generation Company Limited. The Kpone IPP is a 350MW, light crude oil and gas fired, combined cycle power plant and reached Financial Close in December 2014. AFC is the lead project developer, mandated lead arranger and largest equity investor in the Kpone IPP.

Operations Review

Power Plant Permitting

In November 2014, the Company received its land use agreement, or DUAT in Mozambique, from the Mozambican Government granting exclusive use for power plant operations. The DUAT covers an area of 9,500 hectares.

Transmission

During the reporting period, the Company launched the transmission line EPC tender process for the dedicated transmission infrastructure to connect the Ncondezi Project with the Mozambican national transmission network. The tender process includes a 92km 2x400kV transmission line and 220/33kV substation. The Company appointed Norconsult Africa (Pty) Ltd to run the process and in October 2014, the Company received a number of binding bids. Ncondezi and its technical and commercial advisors are currently evaluating the bids.

Ncondezi Open Pit Mine

During 2014, the focus was largely on completing a binding bid process to receive a turnkey solution for the design, engineering, commissioning, operation and maintenance of the Ncondezi coal mine, including the coal processing plant, associated coal handling facilities and infrastructure. This follows completion and publication of the optimised mine feasibility study in December 2013.

Eleven firms submitted expressions of interest, following site visits, and binding bids were received during Q2 2014. For the mine infrastructure, mine establishment and mine operation, three bids were received. For the coal handling and processing establishment and operation, five bids were received. The bids were reviewed by a technical and commercial team led by KPMG Services (Pty) Ltd in South Africa.

The bids provided Ncondezi with a binding input coal price for the Coal Sales Agreement (“CSA”) between the mine and power station. The CSA, in turn, will form a key part of the PPA between the Ncondezi power station and EDM. The Final Form CSA will be completed in parallel with the PPA.

The planned open pit mine is located within Ncondezi’s South Block concession (the “South Mine”), and as such has been termed the South Pit. This designated mining block was chosen due to the proximity of the coal to surface resulting in favourable strip ratios, as well as higher yielding coal than some of the adjacent areas. At present, the target product for the power plant is a 16 – 17 MJ/kg (NAR) domestic grade thermal coal product.

The South Mine covers 200 ha and has the resources to provide coal to the 2x150MW CFB power station for a period of 25 years, plus a contingency of approximately 50% or an additional 15 years.

The South Mine is expected to be an open pit, truck and shovel, contract mining operation supplying domestic grade coal to the Ncondezi power station with an average annual production of 1.5 million tonnes of domestic grade coal, a Life of Mine (“LoM”) average strip ratio of 0.6 BCM/tonne and a LoM average yield of 92%.

Mine Permitting

Ncondezi was issued a Mining Concession in 2013 and in May 2014 submitted its application for land use agreement, or DUAT, to the Mozambican Government. Due to the large area, over 25,000 ha, the process is now being analysed by the Ministry of Land, Environment and Rural Development and the Company hopes to receive the documents during H2 2015.

Insurance Advisor Appointed

The Company has appointed Marsh Ltd (“Marsh”) as the Ncondezi Project’s Insurance Advisor, one of the global leaders in insurance broking and risk management. Marsh has been mandated to advise on the design and procurement of the complete insurance program required for the Ncondezi Project during the construction and operational phases.

Financial Review

Results from operations

The Group made a loss after tax for the year of US\$37.7m compared to a loss of US\$7.1m for the previous financial year. The basic loss per share for the year was 20.5 cents (2013: 5.8 cents).

Administrative expenses totalled US\$37.6m (2013: US\$7.0m). This included a share based payments charge of US\$0.2m (2013: US\$0.7m) and impairment charge of US\$31.8m (2013: nil) relating to provision against the carrying value of the Group's coal mining asset, following a review of the value of the coal mining asset at the year end. The carrying value of the coal asset now reflects the value of the coal resource that will supply the Ncondezi 300MW power station. Refer to note 7 for further information.

Financial Position

The Group's statement of financial position at 31 December 2014 and comparatives at 31 December 2013 are summarised below:

	2014	2013
	US\$'000	US\$'000
Non-current assets	17,464	45,599
Current assets	4,831	9,109
Total assets	22,295	54,708
Current liabilities	3,079	2,752
Total liabilities	3,079	2,752
Net assets	19,216	51,956

The movement in non-current assets of US\$28.1m was largely due to US\$31.8m impairment charge following a review of the value of the coal mining asset at the year end, depreciation charge for the year of US\$0.3m and a decrease of US\$0.4m in restricted cash balance, reduced by US\$4.5m additions arising on the continued development of Ncondezi Mining and Power Projects.

Cash Flows

The net cash outflow from operating activities for the year was US\$4.3m (2013: US\$5.2m).

Net cash used in investing activities was US\$2.7m (2013: US\$4.6m), including US\$3.1m on development activities (2013: US\$4.2m) incurred on the Ncondezi Project, and the transfer of US\$0.4m from restricted cash.

The resulting year end cash and cash equivalents held totalled US\$4.5m (2013: US\$6.8m).

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 Ncondezi Project for 2015, which is focused on satisfying the conditions precedent to the commercial deal with EDM. The Group has implemented a cost reduction strategy and based upon projections the current cash reserves will fund overhead expenditure for approximately 8 months.

The Directors are in negotiations with a number of parties in respect of raising further funds to continue with the development programme of the Ncondezi Project. If a transaction with a potential co-developer or strategic partner is concluded as currently targeted during 2015, the Group will have sufficient funds to continue with the full development programme of the Ncondezi Project. 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. In the event that further funding is not secured the Group will implement a further cost reduction strategy.

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 and fund working capital 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. Further disclosures on going concern are included in note 1.

Overall Project Resources (February 2013 - reviewed by Mineral Corp in May 2015)

Coal type	Resource Category	GTIS Mt	TTIS Mt	MTIS Mt	MTIS Qualities (air-dried basis)													
					Raw						17MJ/kg CV Primary Product							
					RD %	IM %	AS %	VM %	FC %	CV MJ/kg	TS %	Yield %	IM %	AS %	VM %	FC %	CV MJ/kg	TS %
High Volatile	Indicated	867.0	772.8	742.5	1.85	1.4	53.5	18.1	27.0	13.83	1.01	71.3	1.4	44.4	20.5	33.7	17.61	1.09
	Inferred	3,605.2	3,035.8	2,367.4	1.94	1.9	57.7	18.6	21.9	11.79	1.00	62.6	2.0	44.7	22.2	31.1	17.07	1.13
Low-mid Volatile	Indicated	819.5	737.6	723.9	1.91	1.9	51.8	7.5	38.7	12.73	0.88	71.7	1.9	42.6	9.1	46.4	17.29	1.01
	Inferred	264.8	225.1	172.8	1.92	1.8	52.1	7.6	38.5	12.78	0.83	70.8	1.8	42.5	9.0	46.7	17.41	0.98
Sub-totals / Averages	Indicated	1,686.5	1,510.4	1,466.4	1.88	1.7	52.7	12.9	32.8	13.29	0.94	71.5	1.6	43.5	14.9	40.0	17.45	1.05
	Inferred	3,870.0	3,260.9	2,540.1	1.94	1.9	57.4	17.8	23.0	11.86	0.99	63.2	1.9	44.6	21.2	32.3	17.09	1.12
Total	Ind & Inf	5,556.6	4,771.3	4,006.5	1.92	1.8	55.6	16.0	26.6	12.38	0.97	66.2	1.8	44.1	18.7	35.4	17.24	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.
 Mt (million tonnes).
 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 400m depth; in the North Block 600m; in the South and West Blocks 300m, in the East Block 330m and in the River Block 500m).
 TTIS (Total Tonnes 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 Tonnes in situ) figures represent that part of the TTIS which exists above a depth of 250m.
 All qualities are quoted on an air-dried-basis. IM=Inherent Moisture, AS=Ash Yield, VM=Volatile Matter Content, FC=Fixed Carbon, CV=Calorific Value, TS=Total Sulphur.
 Product yields are theoretical yields for +0.5mm material derived from slim core samples.
 The coal volatile category was determined using raw coal volatile contents on a dry, ash-free basis and adjustment factors related to the raw ash yield of the coal.
 Low-mid volatile coals have been devolatilised by igneous intrusions. A Pre-feasibility study by Hugh Brown and Associates indicates that these are suitable for power generation.
 Low volatile coals are not common in the Central, West and River Blocks and have been excluded from resources in those blocks.
 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.
 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.

Resource Summary

South Block Measured Resource (November 2013 - reviewed by Mineral Corp in May 2015)

(The Measured Resources are a subset of the Indicated and Inferred Resources reported in February 2013)

Ply Grouping	Volatile category	GTIS Mt	TTIS/MTIS Mt	TTIS/MTIS Qualities (air-dried basis)													
				Raw							16.12MJ/kg CV Product (theoretical)						
				RD	IM %	AS %	VM %	FC %	CV MJ/kg	TS %	Yield %	IM %	AS %	VM %	FC %	CV MJ/kg	TS %
Sub-total plies A18-A48	Low-mid	52.90	48.93	1.85	1.2	50.4	9.3	39.1	13.26	1.15	78.7	2.0	43.0	10.1	44.9	16.72	0.99
	High	39.04	36.11	1.72	0.9	45.8	19.9	33.4	17.17	1.22	92.9	1.3	44.5	20.2	34.1	17.52	1.09
Sub-total plies A02-A16	Low-mid	26.66	24.66	1.98	1.1	62.1	8.8	27.9	8.81	0.77	48.4	1.8	44.9	10.2	43.0	16.18	0.84
	High	10.86	10.05	1.90	0.7	59.3	15.5	24.5	11.14	0.91	56.3	1.0	47.3	18.1	33.6	16.32	0.92
Total	Low-mid	79.55	73.59	1.89	1.1	54.3	9.2	35.4	11.77	1.03	68.5	2.0	43.5	10.1	44.4	16.59	0.96
All plies	High	49.90	46.16	1.76	0.9	48.7	18.9	31.5	15.86	1.16	84.9	1.2	44.9	19.9	34.0	17.35	1.07
Overall averages & tonnages:			129.45	119.74	1.84	1.0	52.2	12.9	13.35	1.08	74.8	1.6	44.1	14.4	39.9	16.92	1.01

Notes:

Measured Resources were defined within an area where the spacing of boreholes with raw coal quality data is approximately 250m. Extrapolation of this area was limited to 125 metres beyond the outermost qualifying boreholes.

GTIS (gross tonnage in situ) figures represent the entire Measured Resource below the observed limit of weathering and with application of a 0.5m minimum ply thickness cut-off.

TTIS (total tonnage in situ) figures were calculated from the GTIS tonnage by applying Geological Losses of 7.5%.

MTIS (mineable tonnage in situ) figures represent that part of the TTIS which exists above a depth of 250m. As all the Measured Resource is shallower than 120m, the TTIS in this case equals the MTIS.

A raw ash yield limit of 70% was generally applied at the time of ply definition and correlation.

All qualities are quoted on an air-dried-basis. IM=Inherent Moisture, AS=Ash Yield, VM=Volatile Matter Content, FC=Fixed Carbon, CV=Calorific Value, TS=Total Sulphur.

Product yields are theoretical yields for +0.5mm material derived from slim core samples.

Ply thicknesses were weighted against TTIS/MTIS coal seam area to obtain average resource ply thicknesses.

Relative Densities (RD) were weighted against TTIS/MTIS coal volume to obtain average resource RDs.

Raw qualities and product yields were weighted against TTIS/MTIS tonnage to obtain average yields.

The 16.12MJ/kg CV target product specification was provided by Ncondezi.

Product qualities were weighted against wash yield and TTIS/MTIS tonnage to obtain average product qualities.

Low-mid volatile coals have been devolatilised by igneous intrusions. A Pre-feasibility study by Hugh Brown and Associates indicates that these are suitable for power generation.

The coal volatile category was determined using raw coal volatile contents on a dry, ash-free basis and adjustment factors related to the raw ash yield of the coal.

Certain amounts of averaged 'control' data were included in the quality database, where adequate analytical data did not exist in pre-2013 boreholes.

Based on the relative distribution of coal plies, partings and dolerite sills, and the coal ply qualities, the mining package will likely generally comprise plies A18 to A44, with plies A46 and A48 taken at the top where possible. Sub-totals have therefore been supplied for ply groupings A02-A16 and A18-A48.

Resource Summary

Competent Person's statement

The information in this Annual Report that relates to coal resources has been reviewed by and is based on information compiled by Mark C Stewardson and Gavin Andrews of Mineral Corporation Consultancy (Pty) Limited. Both Mr Stewardson and Mr Andrews are Competent Persons who are registered as Professional Natural Scientists in the field of Geological Science with the South African Council for Natural Scientific Professions, a Recognised Professional Organisation included in a list that is posted on the ASX website from time to time. Neither Mineral Corporation Consultancy (Pty) Limited nor any of its Directors, staff or sub-consultants who contributed to this resource estimation has any material interest in Ncondezi or in the assets under consideration.

Both Mr Stewardson and Mr Andrews have sufficient experience that is relevant to the type of coal deposit under consideration and to the activity being undertaken to qualify as Competent Persons as defined in the 2013 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Mr Stewardson and Mr Andrews consent to the inclusion in this Annual Report of the information based on their work in the form and context in which it appears.

The JORC Code sets out minimum standards, recommendations and guidelines for Public Reporting of Exploration Results, Mineral Resources and Ore Reserves. The information contained in this release has been presented in accordance with the JORC Code and references to "Measured" Resources are relevant to that term as defined in the JORC Code.

A Competent Person's Consent Form from 18 May 2015 relating to this report is held on record by Ncondezi.

The Project Resource report was compiled in accordance with the 2004 version of the JORC Code and the Measured Resource report was compiled in accordance with the 2013 version of the JORC Code.

The references for the supporting reports to the resource estimations are:

- The Mineral Corporation, February 2013: Coal Resource Estimates for Licences 804L and 805L, Tete Province, Mozambique; and
- The Mineral Corporation, November 2013: Measured Coal Resource Estimate for South Block, Ncondezi Project, Tete Province, Mozambique.

Environmental & Social Responsibility

Ncondezi Social Development Programme

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 International Finance Corporation performance standards and to Mozambican legislative requirements.

In 2012, Ncondezi formalised its CSR policy with the signing of a three year Social Development Programme ("SDP") with the Government of Mozambique. The SDP is being implemented as a public-private partnership between the Company, the local communities in the Moatize District and the Government.

During 2013, Ncondezi planted various crops incorporating different varieties as a demonstration exercise. Ncondezi cleared and planted a 10 hectare block of land in the Catabua 2 area adjacent to the Ncondezi River. This was fenced off to protect the crops from local animal damage. Within the fenced area 20 plots were demarcated and allocated to the local community together with seed and fertilizer. The crops that were harvested produced exceptional yields using the conservation farming methods.

During 2014, the highlight and main focus of the SDP was the agricultural project. The objective of the project was to train and educate the local community in all aspects of plant management and animal husbandry.

In 2014 the initial 10 hectare fenced block was upgraded from a "rain" planted block into a small irrigation scheme. This made the project more intensive with an additional 20 recipients joining the original 20 plot holders.

With the construction of 2 night storage dams and a canal that dissected the 40 plot holders the Company added 3 solar pumps with which to enable the locals to have access to water from the perennial Ncondezi River. The Company built a shade house nursery to produce vegetable and other seedlings which were distributed to the local farmers.

Vegetables that were successfully grown by the recipients included tomatoes, cabbages, okra, onions and sweet potatoes. The Company has included trials on various other crops that could have the potential to produce high yields and that would give the farmers worthwhile returns. These include bananas, cassava, sugar cane and paw paws.

The introduction of groundnuts into the area as a possible cash crop last year was very successful and the trials plots ended up yielding over 1,350 kilograms of unshelled nuts per hectare. The Company will be retaining enough seed so as the local farmers can embark on an expanded program this coming season.

As part of the program, it is imperative to demonstrate the importance of crop rotations to avoid disease and exhausting the soil fertility. To this end Ncondezi opened up an additional block of 5 hectares adjacent to the original 10 hectare block. This was where an additional 23 local recipients planted maize. The crop yields are still to be determined as the reaping is still on going.

The project's success has come under the District and Provincial spotlight and at their request Ncondezi have recently hosted a field day that was attended by all the major mining companies and local and provincial authorities. A total of over 300 attended to tour the project and speak to the local recipients.

Alongside the agricultural project, Ncondezi also sponsored the following activities during 2014:

- Two students completed their Masters degree in Mining Engineering at Coimbra University on full bursary from Ncondezi.
- Ncondezi built a new school at Waenera village after the old school was badly affected by storms. This project was made special through the active participation of Ncondezi staff and families in the construction of the school and its equipment.
- A 4x4 ambulance was purchased to assist villagers in remoter areas within the project area get to the local clinic.

Directors' Biographies

Michael Haworth / Non-Executive Chairman

Michael Haworth is a Senior Partner of Greenstone Capital LLP, a Director of Greenstone Management Limited, a Non-Executive Director of Zanaga Iron Ore Company Limited and a Director of Strata Limited ("Strata").

Mr Haworth has over 17 years finance 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.

Christiaan Schutte / Chief Operating Officer

Christiaan 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 Manager 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

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 1,050MW 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.

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.

Directors' Biographies

Jacek Glowacki / Non-Executive Director

Jacek Glowacki has over 30 years of international experience in the power sector and is currently Chief Executive Officer and Chairman of the Board of Polenergia Group, a Polish Independent Power Producer and a subsidiary of Kulczyk Investments S.A., a significant shareholder in Ncondezi.

During his career, he has held senior executive positions at Kulczyk Investments, AEI Corporation (USA), Trakya Elektrik (Turkey) and Prisma Energy Europe. Mr Glowacki's operating experience includes General Manager of Nowa Sarzyna, which was owned by ENRON and Chief Production Engineer at Cracow Combined Heat and Power Plant, owned by EDF. He holds a degree in engineering from the University of Mining and Metallurgy in Cracow and an MBA from the University of Chicago.

Aman Sachdeva / Non-Executive Director (appointed in May 2015)

Aman Sachdeva was appointed to the Ncondezi Board on 21 May 2015 and brings a wealth of experience having spent more than 20 years in the infrastructure industry, specializing in the energy sector; ranging from project finance, management consulting, regulatory affairs, mergers and acquisitions, power system planning, energy conservation and marketing. Mr Sachdeva is currently the founder and Chief Executive Officer of Synergy Consulting, an independent consulting practice with a focus on project finance, which has to date closed projects worth US\$12 billion. Mr Sachdeva is also an advisor to the World Bank, Energy Sector for Central Asia, South Asia and Africa on a variety of projects.

Paul Venter / Chief Executive Officer (resigned in May 2015)

Paul Venter was appointed CEO in February 2013. He joined the Company as Chief Operating Officer in June 2012 and was responsible for delivering the Company's power strategy. Mr Venter has over 40 years' experience across Africa, Mongolia, China and Russia in the mining, power generation and transport industries and served for the full year ended 31 December 2014. Mr Venter resigned as a Director and CEO on 21 May 2015.

Directors' Report

The Directors present their Annual Report and the audited group financial statements headed by Ncondezi Energy Limited for the year ended 31 December 2014.

Principal activities

The principal activity of the Group is the development of an integrated 300MW power plant and mine 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 2 to 3, the Operations Review on pages 4 and 5 and in the Financial Review on page 6.

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 15 to 18.

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 16.

Key performance indicators

The key performance indicators of the Group are as follows:

	2014	2013	2012
Mine exploration expenditure (US\$'000)	580	2,095	8,321
Power development expenditure (US\$'000)	3,848	2,109	2,244
Metres drilled Ncondezi Project	-	9,723	3,674
Share price at 31 December (pence)	5.5p	6.12p	24.00p
Cash at bank at 31 December (US\$'000)	4,515	6,756	12,008

Results and dividends

The results of the Group for the year ended 31 December 2014 are set out on page 27.

The Directors do not recommend payment of a dividend for the year (2013: nil). The loss will be transferred to reserves.

Events after the reporting date

See note 20 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 16 of the financial statements.

Going concern

As at 5 June 2015 the Group had cash reserves of approximately \$2.2m. The Group has implemented a cost reduction strategy and based upon projections the current cash reserves will fund overhead expenditure for approximately 8 months. Details on going concern are contained in note 1 of the financial statements.

Directors' Report

Directors and Directors' interests

Director	Note	Appointment date	Resignation date	Ordinary Shares held 31 December 2014	Ordinary Shares held 31 December 2013
Michael Haworth	1			12,726,743	5,936,349
Jacek Glowacki	2	28.10.13		-	-
Graham Mascall			14.02.14	504,195	504,195
Peter O'Connor		04.02.13		-	-
Estevão Pale				-	-
Christiaan Schutte		04.02.13		-	-
Nigel Sutherland			14.02.14	32,785	32,785
Mark Trevan			14.02.14	-	-
Paul Venter	3	26.04.13		-	-
Aman Sachdeva	4	21.05.15		-	-

1. Includes shares held by a trust of which Michael Haworth is a potential beneficiary.
2. Jacek Glowacki is a director of Polenergia Group, a subsidiary of Kulczyk Investments S.A. which holds 29,111,719 ordinary shares representing 11.7% of the issued Ordinary Shares as at 31 May 2015.
3. Paul Venter resigned on 21 May 2015.
4. Aman Sachdeva is AFC's nominated director. AFC holds 54,988,520 ordinary shares representing 22.0% of the issued Ordinary Shares as at 31 May 2015.

Annual General Meeting

Resolutions will be proposed at the forthcoming Annual General Meeting, as set out in the Formal Notice. Following his appointment in May 2015 and in accordance with the Company's Articles of Association, Aman Sachdeva will retire and offer himself for re-election at the forthcoming Annual General Meeting of the Company. In accordance with the Company's Articles of Association one third of the Directors are required to retire by rotation. Accordingly, Peter O'Connor and Christiaan Schutte will offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

Corporate Governance

The Company's compliance with the principles of corporate governance is explained in the corporate governance statement on pages 19 to 21.

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
25 June 2015

Risk Factors

Risk(s)	Potential Impact(s)	Mitigation Measure(s)
Off-taker risk	While the Company has announced that it has reached a conditional commercial deal with EDM as to the starting tariff for the PPA which supports the power plant project economics, these terms and the PPA remain subject to contract. In the event that the Group is unable to finalise the PPA on acceptable terms, the Group will need to secure an alternative credible power off-taker(s) to raise finance for the power plant project. There is no guarantee that, in such circumstances, the Group will be able to secure a credit worthy off-taker for the full output with the plant operating at load factors in excess of 80 per cent.	<p>The Company is working to satisfy the conditions precedent of the commercial deal with EDM which has been extended to 30 September 2015</p> <p>The Company has substantially advanced the PPA and PCA through negotiations with EDM and Ministry of Mineral Resources and Energy.</p> <p>The Company is working with international experts to ensure the bankability of the commercial deal with EDM.</p>
Financial closure	<p>The Group will need to secure project financing, investment from strategic investors and/or investment from co-developers to complete the Ncondezi Project. Failure to do so may lead to the Group not being a going concern (see note 1) and failure of the Ncondezi Project and/or delay in its execution.</p> <p>To achieve Financial Close of the Ncondezi Project, the Group will also need to progress, and possibly conclude, some of its on-going negotiations on key project agreements, including the PCA and the PPA. Failure or delay in doing so may lead to failure of the Ncondezi Project and/or delay in its execution.</p>	<p>The Company continues to engage with a number of potential financing partners with the objective of securing additional development capital.</p> <p>The Directors' will monitor the monthly cash burn rate to ensure the Group operates within its cash resources for as long as possible.</p>
Competition from other power stations in Mozambique	Other power stations are being developed in the Tete region and competing for similar resources such as water and transmission line servitudes.	<p>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.</p> <p>Being a thermal coal power station project, the Group can implement commissioning of the power plant faster than competing hydroelectric projects which typically take 2-3 years longer to commission.</p>
Performance risk	The power plant may be unable to perform as per the EPC proposal, which may lead to a delay.	<p>As the power plant project progresses, performance warranties and guarantees will be required from the EPC contractor as part of the EPC contract, including liquidated damages for non-performance.</p> <p>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.</p>

Risk Factors

<p>River water resource risk</p>	<p>The Revúbuè and Ncondezi Rivers are seasonal, should there be insufficient water at the confluence (water extraction point), the power plant operation will fail.</p>	<p>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.</p> <p>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.</p>
<p>Project development risks</p>	<p>There can be no assurance that the Group will be able to manage effectively the expansion of its operations or that the Group's current personnel, systems, procedures and controls will be adequate to support the Group's operations, including the Ncondezi Project. This includes, inter alia, the Group managing the acquisition of required land tenure, infrastructure development, contracting, procurement, technology, financing and any issues affecting local and indigenous populations, their cultures and religions. Any failure of the Board to manage effectively the Group's growth and development could have a material adverse effect on the Ncondezi Project economics and the Group's business, financial condition and results of operations. There is no certainty that all or, indeed, any of the elements of the Group's current strategy will develop as anticipated and that the Ncondezi Project will be realised or that the Group will be profitable.</p>	<p>The Company has received binding EPC bids from internationally recognised EPC contractors to develop the mine and power plant.</p> <p>The Company will look to appoint owners engineers and operations and maintenance contractors with the appropriate experience and track record to manage the development and operations of the Power Plant and Mine.</p> <p>The Company may look to partner with a strategic investor that has a track record of managing the development of similar mine and power projects.</p>
<p>Use of CFB Technology</p>	<p>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.</p> <p>Consequences may include not meeting guaranteed numbers in terms of plant output, efficiency and emission limits.</p> <p>Operator and maintenance issues may arise if the Group is not familiar with this technology. This may have an impact on plant reliability and availability.</p>	<p>Rigorously review the plant performance in the country of origin as well as in other countries where this technology is in use.</p> <p>Visit and discuss with power project sponsors/users of identical installation outside Mozambique to benefit from their experience.</p> <p>Actively participate in erection and commissioning activities during project execution.</p> <p>Embed in the EPC contractor's organisation the Group's own personnel during all phases of the project execution.</p> <p>Subject the power plant to rigorous pre-commissioning and commissioning tests as well as performance guarantee tests on completion.</p>

Risk Factors

Power plant location geotechnical risks	Improper geotechnical investigation may lead to increase in construction cost.	<p>An initial geotechnical study was completed late in H2 2012 on the proposed power plant site. No fatal flaws were identified.</p> <p>Further work will be completed to reaffirm the geotechnical study results ahead of any major construction.</p>
Utilities availability and transportation (water, limestone, coal, accessibility, heavy loads transportation)	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 have been completed and confirm there are no major impediments.
Mining	Delays in the construction and commissioning of the mining project.	As the mine project progresses, performance warranties and guarantees will be required from the mine contractor as part of the mine EPC contract, including liquidated damages for non-performance.
Estimating mineral reserve and resource	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Resources</p> <ul style="list-style-type: none"> • Sign-off of resources by registered Competent Person ("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 <p>Reserves</p> <ul style="list-style-type: none"> • Sign-off of reserves by registered CP • Classification of reserves into proven or probable reserves <p>Detailed mine design and scheduling.</p>
Coal risk	<p>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.</p> <p>Not properly characterised coal resources may lead to incorrect boiler design and plant underperformance.</p>	Further coal quality analysis will be conducted and supplied to the boiler supplier for finalisation of boiler design.
Transmission grid constraints	Available transmission capacity is allocated to other power generators.	<p>A Transmission Agreement Heads of Terms has been signed 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.</p> <p>The Group will explore and develop all potential future transmission options including new transmission capacity in Mozambique as well as other countries including Malawi and Zambia.</p>

Risk Factors

<p>Environmental and other regulatory requirements</p>	<p>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.</p>	<p>The Group adopts standards of international best practice in environmental management and community engagement in addition to focussing on satisfying Mozambican environmental regulations and requirements in all stages of development.</p> <p>Environmental Management and Social Development Plans have been advanced and are being implemented to satisfy national and international best practice.</p> <p>The Mine and Power Plant Environmental Social Impact Assessment have been conducted by independent, internationally recognised consultants and approved by the Mozambican Government.</p>
<p>Landmines</p>	<p>Existence of landmines in the Tete region and specifically in the project area, which may lead to safety issues such as fatalities and injury.</p>	<p>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.</p>
<p>Foreign Country risk</p>	<p>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.</p>	<p>The Mozambique government has been stable for many years and fosters a beneficial climate towards companies exploring for resources.</p>

Corporate Governance Statement

The Company's shares are admitted to trading on AIM and so it is not formally required to comply with the UK Corporate Governance Code, which applies to companies which are officially listed and admitted to trading on the Main Market of the London Stock Exchange with a Premium Listing. Although the Company does not comply with UK Corporate Governance Code, 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 24. 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

During the year ended 31 December 2014, the Board comprised a Non-Executive Chairman, (Michael Haworth), one Executive Director (Paul Venter) and seven further Non-Executive Directors (Christiaan Schutte, Jacek Glowacki, Peter O'Connor, Estevão Pale, Mark Trevan, Graham Mascall and Nigel Sutherland).

Graham Mascall, Nigel Sutherland and Mark Trevan resigned as Non-Executive Directors on 14 February 2014. On 1 February 2015 Christiaan Schutte was appointed Chief Operating Officer and Executive Director. On 21 May 2015 Paul Venter announced he would be stepping down as Chief Executive Officer and Executive Director. Also on 21 May 2015, Aman Sachdeva was appointed as a Non-Executive Director.

The Board considers that, Peter O'Connor and Estevão Pale 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.

Corporate Governance Statement

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.

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 comprises Peter O'Connor (Committee Chairman) and Michael Haworth.

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

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

The Remuneration Committee

The Remuneration Committee comprised Christiaan Schutte (Committee Chairman) and Michael Haworth. Christiaan Schutte stood down from the Remuneration Committee when he was appointed Chief Operating Officer in February 2015. An additional member of the Remuneration Committee is to be appointed. Until an additional member is appointed, matters of remuneration will be reserved for the Board.

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 22 to 23.

Corporate Governance Statement

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 AIM in a timely manner.

All information disclosed on AIM is posted on the Company's website <http://www.ncondezienergy.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 on-going 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

During the year ended 31 December 2014, the Remuneration Committee (the 'Committee') comprised Christiaan Schutte (Committee Chairman) and Michael Haworth. Christiaan Schutte stood down from the Remuneration Committee when he was appointed Chief Operations Officer in February 2015. An additional member of the Remuneration Committee is to be appointed. Until an additional member is appointed, matters of remuneration will be reserved for the Board.

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. The Non-Executive Directors 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") and unapproved share option scheme

The Company adopted an LTIP and unapproved share option scheme which are administered by the Committee. These are discretionary and the Committee will decide whether to make share awards under the LTIP or unapproved share option scheme at any time. As at 31 December 2014 the following awards remained in place:

Director	Date of grant	Number granted	Exercise price	Date exercisable from
Paul Venter	19 June 2012	500,000	30.5p	19 June 2013
Paul Venter	26 April 2013	1,000,000	17.25p	26 April 2013
Graham Mascall	27 May 2010	2,400,000	Nil	27 May 2010
Graham Mascall	27 May 2010	800,000	25c	27 May 2010
Paul Venter	31 January 2014	1,125,000	Nil	31 January 2014
Paul Venter	31 January 2014	1,125,000	6.5p	Financial close

Non-Executives	Date of grant	Number granted	Exercise price	Expiry
Mark Trevan	26 April 2013	75,000	17.25p	3 years from vesting
Estevao Pale	26 April 2013	75,000	17.25p	3 years from vesting
Peter O'Connor	26 April 2013	75,000	17.25p	3 years from vesting
Christiaan Schutte	26 April 2013	75,000	17.25p	3 years from vesting

Grant of Share Awards

On 31 January 2014, 5,700,000 share options were issued to the Company's executive senior management team and contracted personnel. Of the total share options granted, 3,375,000 options were awarded in lieu of an annual bonus payment for 2013 and vested on the date of grant; 2,250,000 with a zero strike price and 1,125,000 at an exercise price of 6.5p per share. The remaining 2,325,000 options will vest, subject to achieving Financial Close of the Company's 300MW power plant project, at an exercise price of 6.5p per share.

Directors' Options

On 31 January 2014, Paul Venter was granted 1,125,000 share options that vest on the date of grant at a zero exercise price. In addition Mr Venter was granted share options in respect of a further 1,125,000 shares that vest subject to Financial Close at an exercise price of 6.5p per share.

Following the restructuring of the Company's share incentive scheme, the newly issued and unexercised share awards jointly represent 15,425,000 shares or 6.5% of the Company's current issued share capital.

Report of the Remuneration Committee

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. The current Chairman has waived all fees.

Directors' remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2014 for individual directors who held office in the Company during the period.

Director	Note	Base Salary/fee US\$'000	Benefits US\$'000	Share based payments US\$'000	Total 2014 US\$'000	Total 2013 US\$'000
Michael Haworth		-	-	-	-	-
Jacek Glowacki		66	-	-	66	12
Graham Mascal	1	25	-	-	25	62
Peter O'Connor		66	-	3	69	61
Estevão Pale		67	-	3	70	68
Christiaan Schutte		66	-	3	69	60
Nigel Sutherland	2	25	-	-	25	68
Mark Trevan	1	25	-	3	28	68
Paul Venter		371	20	77	468	560
Total		711	20	89	820	959

1. Resigned 14 February 2014

2. This includes US\$24,615 (2013: US\$63,214) paid to Mines Value Management for services provided by Nigel Sutherland. Resigned 14 February 2014.

On behalf of the Remuneration Committee

Michael Haworth

Remuneration Committee

25 June 2015

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 on-going integrity of the financial statements contained therein.

Independent audit report to the members of Ncondezi Energy Limited

Report on financial statements

We have audited the financial statements of Ncondezi Energy Limited (formerly Ncondezi Coal Company Limited) for the year ended 31 December 2014 which comprise the consolidated statement of profit or loss, the consolidated statement of other 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 5 February 2015. Our audit work has been undertaken so that we might state to the Company’s Directors 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 Directors 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 and its financial position as at 31 December 2014 and of its financial performance and its cash flows for the year then ended; and
- have been prepared in accordance with IFRS as adopted by the European Union.

Independent audit report to the members of Ncondezi Energy Limited

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. The Directors believe that the Group will secure the necessary funds. While the Directors are continuing funding negotiations with a number of 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 which would principally relate to impairment of the Group's non-current assets.

Opinion on other matters

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Directors' report. 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

25 June 2015

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

Consolidated statement of profit or loss

for the year ended 31 December 2014

	Note	2014 US\$'000	2013 US\$'000
Other administrative expenses	3	(5,562)	(6,368)
Impairment	3, 7	(31,838)	-
Share-based payments charge	3	(226)	(673)
Total administrative expenses and loss from operations		(37,626)	(7,041)
Finance income		3	38
Finance expense		(41)	(42)
Loss for the year before taxation		(37,664)	(7,045)
Taxation	4	(37)	(65)
Loss for the year attributable to equity holders of the parent company		(37,701)	(7,110)
Loss per share expressed in cents			
Basic and diluted	5	(20.5)	(5.8)

Consolidated statement of other comprehensive income

for the year ended 31 December 2014

	2014 US\$'000	2013 US\$'000
Loss after taxation	(37,701)	(7,110)
Other comprehensive income:		
Exchange differences on translating foreign operations*	(48)	20
Total comprehensive loss for the year	(37,749)	(7,090)

*Items that may be reclassified to profit or loss

The notes on pages 31 to 54 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2014

	Note	2014 US\$'000	2013 US\$'000
Assets			
Non-current assets			
Intangible assets	6	-	16
Property, plant and equipment	7	17,464	45,154
Restricted cash deposits		-	429
Total non-current assets		17,464	45,599
Current assets			
Inventory		12	29
Trade and other receivables	9	304	2,324
Cash and cash equivalents	10	4,515	6,756
Total current assets		4,831	9,109
Total assets		22,295	54,708
Liabilities			
Current liabilities			
Current tax payable		35	68
Trade and other payables	11	3,044	2,684
Total current liabilities		3,079	2,752
Total liabilities		3,079	2,752
Capital and reserves attributable to shareholders			
Share capital	12	85,478	80,695
Foreign currency translation reserve		16	64
Retained earnings		(66,278)	(28,803)
Total capital and reserves		19,216	51,956
Total equity and liabilities		22,295	54,708

The financial statements were approved and authorised for issue by the Board of Directors on 25 June 2015 and were signed on its behalf by:

Christiaan Schutte

Chief Operating Officer

The notes on pages 31 to 54 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended at 31 December 2014

	Share capital US\$'000	Foreign Currency Translation reserve US\$'000	Retained earnings US\$'000	Total US\$'000
At 1 January 2014	80,695	64	(28,803)	51,956
Loss for the year	-	-	(37,701)	(37,701)
Other comprehensive income for the year	-	(48)	-	(48)
Total comprehensive loss for the year	80,695	16	(66,504)	14,207
Issue of shares	5,000	-	-	5,000
Costs associated with issue of shares	(217)	-	-	(217)
Equity settled share-based payments	-	-	226	226
At 31 December 2014	85,478	16	(66,278)	19,216

	Share capital US\$'000	Foreign Currency Translation reserve US\$'000	Retained earnings US\$'000	Total US\$'000
At 1 January 2013	76,108	44	(22,366)	53,786
Loss for the year	-	-	(7,110)	(7,110)
Other comprehensive income for the year	-	20	-	20
Total comprehensive loss for the year	76,108	64	(29,476)	46,696
Issue of shares	4,951	-	-	4,951
Costs associated with issue of shares	(364)	-	-	(364)
Equity settled share-based payments	-	-	673	673
At 31 December 2013	80,695	64	(28,803)	51,956

The notes on pages 31 to 54 form part of these financial statements.

Consolidated statement of cash flows

for the year ended at 31 December 2014

	Note	2014 US\$'000	2013 US\$'000
Cash flow from operating activities			
Loss before taxation		(37,701)	(7,045)
Adjustments for:			
Finance income		(3)	(38)
Finance expense		41	42
Share-based payments charge	3	226	673
Unrealised foreign exchange movements		(8)	19
Disposal of property plant and equipment		7	45
Impairment		31,838	-
Depreciation and amortisation		318	396
Net cash flow from operating activities before changes in working capital		(5,282)	(5,908)
Decrease/(increase) in inventory		17	(3)
(Decrease)/increase in payables		(991)	53
Decrease/(increase) in receivables		2,020	706
Net cash flow from operating activities before tax		(4,236)	(5,152)
Income taxes paid		(65)	(53)
Net cash flow from operating activities after tax		(4,301)	(5,205)
Investing activities			
Payments for property, plant and equipment	7	(31)	(1)
Sale proceeds from disposal of property, plant and equipment		-	4
Interest received		3	38
Transfer from/ (to) restricted cash		429	(429)
Power development costs capitalised	6	(2,328)	(1,627)
Mine development costs capitalised	6	(755)	(2,577)
Net cash flow from investing activities		(2,682)	(4,592)
Financing activities			
Issue of ordinary shares		5,000	4,951
Bank charges		(41)	(42)
Cost of share issue		(217)	(364)
Net cash flow from financing activities		4,742	4,545
Net decrease in cash and cash equivalents in the period		(2,241)	(5,252)
Cash and cash equivalents at the beginning of the period		6,756	12,008
Cash and cash equivalents at the end of the period		4,515	6,756

The notes on pages 31 to 54 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

As at 5 June 2015 the Group had cash reserves of approximately \$2.2m. The Group has implemented a cost reduction strategy and based upon projections the current cash reserves will fund overhead expenditure for approximately 8 months.

The group has entered into a conditional commercial deal with EDM for the sale of electricity. Under the conditional agreement, a number of operational conditions precedent, including demonstration of financial capability, must be satisfied by 30 September 2015.

The Directors are currently in negotiations with a number of parties in relation to providing financing. Based on the current progress of negotiations with potential providers of finance, the Directors are confident that sufficient funds can be raised in the necessary time frame. Accordingly they are confident that the Group will continue as a going concern and have prepared the financial statements on that basis, however, there can be no guarantee that a binding transaction can be concluded.

Should the Group be unable to raise the necessary finance within the required time, it may not be able to realise the value of its assets and discharge its liabilities in the ordinary course of business.

These factors indicate the existence of a material uncertainty which may cast significant doubt about 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 unable to continue as a going concern. Such adjustments would principally be the write down of the Group's non-current assets.

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 judgments, 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 judgments 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 judgment 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.

1. Principal accounting policies *(continued)*

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 2014, several amended standards and interpretations became effective. 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):

Standard		Effective date
IAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions	1 February 2015
IFRIC 21	Interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets on the accounting for levies imposed by governments.	17 June 2014
Annual Improvements to IFRSs	2010-2012 Cycle	1 February 2015
Annual Improvements to IFRSs	2011-2013 Cycle	1 January 2015
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016*
IAS 27 (Amendment)	Equity Method in Separate financial statements	1 January 2016*
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016*
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016*
IAS 1 (Amendment)	Disclosure initiative	1 January 2016*
Annual Improvements to IFRSs	2012-2014 Cycle	1 January 2016*
IFRS10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception	1 January 2016*
IFRS 9	Financial Instruments	1 January 2018*

The Group is yet to assess the full impact of adoption of IFRS 9 and intends to adopt the standard when it has been endorsed 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.

1. Principal accounting policies *(continued)*

Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. 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.

Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a business is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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.

When grant of equity instruments is cancelled or settled during the vesting period the cancellation is accounted for as an acceleration of vesting and the amount that otherwise would have been recognised for services received over the remainder of the vesting period is immediately expensed.

If, after the vesting date, fully vested options are forfeited or not exercised the previously recognised share based payment charge is not reversed.

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%
Other	20%-33%
Buildings	10%

The carrying value of property plant and equipment is assessed annually and any impairment is charged to the profit or loss.

1. Principal accounting policies *(continued)*

Power project costs

Power project expenditure is expensed until it is probable that future economic benefits associated with the project will flow to the Group and the cost of the project can be measured reliably. When it is probable that future economic benefits will flow to the Group, all costs associated with developing the 300MW power project are capitalised as power project expenditure within property, plant and equipment category of tangible non-current assets. The capitalised expenditure includes appropriate technical and administrative expenses but not general overheads. Power project assets are not depreciated until after the start of commercial operation.

Exploration and evaluation assets

Exploration and evaluation assets include 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. Costs incurred include appropriate technical and administrative expenses but not general overheads. 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.

Mining assets

When the technical feasibility of the exploration project is determined, mining licence concession is obtained and a decision is made to proceed to development stage the related exploration and evaluation assets are transferred to non-current mining assets and included within property, plant and equipment.

Mining properties are depleted over the estimated life of the reserves on a 'unit of production' basis.

Commercial reserves are proven and probable reserves. Changes in commercial reserves affecting unit of production calculations are dealt with prospectively over the revised remaining 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.

The Group has two cash generating units being the coal mining asset and the power plant project.

1. Principal accounting policies *(continued)*

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 profit or loss on a straight-line basis over the lease term.

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.

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 profit or loss 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.

1. Principal accounting policies *(continued)*

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.

Financial liabilities

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

Held at amortised cost

Financial liabilities including trade and other 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, evaluation and mining assets

Determination as to whether, and by how much, an asset or cash generating unit is impaired involves management estimates on highly uncertain matters such as future commodity prices, estimates of future operating expenses, discount rates, production profiles and the outlook for regional market power demand in Mozambique. The expected future cash flows are estimated using management's best estimates which are based on currently available information such as reserves reports and are consistent with the 25 year conditional agreement with EDM for the supply of electricity.

As disclosed in note 1, the value of the Group's coal mining asset and power project is dependent on the Group's ability to raise the required finance for the construction of the coal processing facilities and the power plant.

The key estimates and assumptions are disclosed in note 7.

(ii) Capitalisation of power project expenditure

The power plant costs are capitalised when it is probable that future economic benefits will flow to the Group. When determining the probability of the success of the power plant project Management have considered key milestones, risks and de-risking events and determined that it is more likely than not that the power plant will be developed.

The final outcome of the power plant development is dependent on a number of technical, financial and political factors; however Management assess these factors to have been suitably mitigated and de-risked.

(iii) Impairment of power project assets

In accordance with the accounting policy stated above, the Group tests annually to see whether power project assets have suffered impairment.

The recoverability of the amounts shown in the consolidated statement of financial position in relation to power project assets are dependent upon the successful completion of a power purchase off take agreement, the political, economic and legislative stability of the region in which the plant is to operate, the Group's ability to obtain the necessary financing to fulfil its obligations as they arise and the future profitable electricity production or proceeds from the disposal of properties.

(iv) Fair value of share-based payments

The Group determines the fair value of 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 note 14.

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.

Notes to the consolidated financial statements *(continued)*

2. Critical accounting estimates and judgements *(continued)*

(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

	2014 US\$'000	2013 US\$'000
Staff costs	2,415	2,806
Professional and consultancy	1,143	1,168
Office expenses	1,071	717
Travel and accommodation	354	457
Other expenses	637	991
Foreign exchange	(58)	229
Other administrative expenses	5,562	6,368
Impairment (Note 7)	31,838	-
Share-based payments	226	673
Total administrative expenses	37,626	7,041

Auditors' remuneration

	2014 US\$'000	2013 US\$'000
Group auditors' remuneration		
- audit of the Group's accounts	70	68
- audit of the Group's subsidiaries	22	30
Other services		
- other services relating to consulting	23	-
	115	98

Notes to the consolidated financial statements *(continued)*

3. Administrative expenses *(continued)*

Staff costs (including Directors)

	2014	2013
	US\$'000	US\$'000
Wages and salaries	2,480	2,767
Share based payments	226	673
Social security costs	148	190
	2,854	3,630

US\$212,490 (2013: US\$151,240) 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:

	2014	2013
	Number	Number
Operational	19	22
Administration	20	24
	39	46

Key management compensation:

	2014	2013
	US\$'000	US\$'000
Salary	1,202	1,464
Fees	170	-
Social security costs	110	136
	1,482	1,600
Benefits	35	33
Share based payments	173	648
	1,690	2,281

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% (2013: 32%) on its profits in Mozambique and Ncondezi Services (UK) Limited which is subject to tax at a rate of 21.5% (2013: 23.25%) 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 2014 has been estimated at US\$37,263 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:

	2014 US\$'000	2013 US\$'000
Current tax – UK corporation tax	37	65
Group loss on ordinary activities before tax	(37,664)	(7,045)
Effects of:		
Reconcile to UK corporation tax rate of 21.5% (2013: 23.25%)	(8,098)	(1,638)
Differences arising from different tax jurisdictions	370	1,023
Non deductible expenses	7,774	217
Foreign exchange effect originating in overseas companies	(415)	(124)
Unrecognised taxable losses carried forward	406	587
Total tax charge for the year	37	65

During the exploration and development stages, the Group will accumulate tax losses which may be carried forward. As at 31 December 2014, no deferred tax asset has been recognised for tax losses of US\$7,609,000 (2013: USD\$6,340,000) 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\$1,269,000 will be available until 31 December 2019, US\$1,834,000 will be available until 31 December 2018, US\$2,000,000 will be available until 31 December 2017, US\$1,631,000 will be available until 31 December 2016, and US\$875,000 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 year a diluted loss per share has not been calculated as this would serve to reduce the basic loss per share. Out of 15,425,000 share incentives outstanding at the end of the year 12,500,000 (2013: 6,300,000) had already vested, which if exercised could potentially dilute basic earnings per share in the future. There were no potential ordinary shares outstanding in the year (2013: nil).

	2014			2013		
	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	(37,701)	183,486	(20.5)	(7,110)	122,447	(5.8)

Notes to the consolidated financial statements *(continued)*

6. Intangible assets

	Mine exploration and evaluation costs US\$'000	Other intangible assets US\$'000	Total US\$'000
Cost			
At 1 January 2013	39,024	154	39,178
Additions	2,577	-	2,577
Transfer to property, plant and equipment (Note 7)	(41,601)	-	(41,601)
Foreign exchange	-	5	5
At 31 December 2013	-	159	159
At 1 January 2014	-	159	159
Foreign exchange	-	(9)	(9)
At 31 December 2014	-	150	150
Amortisation			
At 1 January 2013	-	97	97
Amortisation charge	-	42	42
Foreign exchange	-	4	4
At 31 December 2013	-	143	143
At 1 January 2014	-	143	143
Amortisation charge	-	15	15
Foreign exchange	-	(8)	(8)
At 31 December 2014	-	150	150
Net Book value 2014	-	-	-
Net Book value 2013	-	16	16
Net book value 2012	39,024	57	39,081

Notes to the consolidated financial statements *(continued)*

7. Property, plant and equipment

	Power assets US\$'000	Mining assets US\$'000	Buildings US\$'000	Plant and equipment US\$'000	Other US\$'000	Total US\$'000
Cost						
At 1 January 2013	-	-	1,757	513	789	3,059
Additions	1,627	-	-	1	-	1,628
Transfer from intangible assets (Note 6)	2,726	38,875	-	-	-	41,601
Disposals	-	-	(21)	-	(67)	(88)
At 1 January 2014	4,353	38,875	1,736	514	722	46,200
Additions	3,848	580	-	-	31	4,459
Impairment	-	(31,838)	-	-	-	(31,838)
Disposals	-	-	-	(67)	(35)	(102)
At 31 December 2014	8,201	7,617	1,736	447	718	18,719
Depreciation						
At 1 January 2013	-	-	134	161	436	731
Depreciation charge	-	-	80	71	203	354
Disposals	-	-	(4)	-	(35)	(39)
At 1 January 2014	-	-	210	232	604	1,046
Depreciation charge	-	-	76	96	131	303
Disposals	-	-	-	(59)	(35)	(94)
At 31 December 2014	-	-	286	269	700	1,255
Net Book value 2014	8,201	7,617	1,450	178	18	17,464
Net Book value 2013	4,353	38,875	1,526	282	118	45,154
Net book value 2012	-	-	1,623	352	353	2,328

Power assets relate to the development of a 300MW power plant.

Mine assets relate to the initial acquisition of the licences and subsequent expenditure incurred in evaluating the Ncondezi mine project. These were transferred from intangible assets on receipt of the mining concession in 2013.

The impairment charge relates to provisions against the carrying value of the Group's coal mining asset, following a review of the value of the coal mining asset at the year end. Although the Group has reached a conditional commercial deal with EDM, coal prices have significantly decreased during the year and this has led to the impairment of the Group's mining asset. The carrying value of the coal asset now reflects the value of the coal resource that will supply the Ncondezi 300MW power station.

Impairment for the coal mining asset has been assessed based on a value in use calculation. The key estimates used in the value in use calculation are as follows:

- Pre tax discount rate – 11.7% (2013: 11.7%)
- Life of the coal asset (based on the conditional EDM deal) – 25 years
- Inflation – 2.21% (2013: 3%)

Of the US\$41.6 million that was transferred from intangible assets in 2013, US\$2.7 million related to the power assets.

Notes to the consolidated financial statements *(continued)*

8. Subsidiaries

The Group has the following subsidiary undertakings:

		% interest 2014	% interest 2013	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	'NCCML'	100	100	Mozambique	Mining exploration
Ncondezi Services (UK) Limited	'NSUL'	100	100	UK	Service Company
Ncondezi Power Holdings Limited	'NPHL'	100	100	Mauritius	Holding company
Ncondezi Power Company SA	'NPCSA'	100	-	Mozambique	Energy company
Ncondezi Power Mozambique Limitada	'NPML'	100	100	Mozambique	Energy company

Ncondezi Coal Company Mozambique Limitada is owned by Zambezi Energy Corporation Holdings 1 Limited and Zambezi Energy Corporation Holdings 2 Limited.

Ncondezi Power Company SA is owned by Ncondezi Energy Limited, Zambezi Energy Corporation Holdings 1 Limited and Zambezi Energy Corporation Holdings 2 Limited.

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

9. Trade and other receivables

	2014 US\$'000	2013 US\$'000
Current assets:		
Other receivables	304	2,324
Total trade and other receivables	304	2,324

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

There are no receivables that are past due or impaired at year end.

Notes to the consolidated financial statements *(continued)*

10. Cash and cash equivalents

	2014 US\$'000	2013 US\$'000
Cash at bank and in hand	4,515	6,756
	4,515	6,756

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

	2014 US\$'000	2013 US\$'000
US Dollars	3,885	560
Great British Pounds	178	5,212
South African Rand	412	332
Mozambique Meticaís	40	652
	4,515	6,756

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

11. Trade and other payables

	2014 US\$'000	2013 US\$'000
Other payables	1,358	631
Other taxation and social security	38	49
Accruals	1,648	2,004
	3,044	2,684

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

12. Share capital

	2014	2013
Number of shares		
Allotted, called up and fully paid		
Ordinary shares of no par value	236,662,043	181,673,523

	Shares issued Number	Share capital US\$'000
At 1 January 2014	181,673,523	80,695
Issue of shares	54,988,520	5,000
Issue costs	-	(217)
At 31 December 2014	236,662,043	85,478

	Shares Issued Number	Share capital US\$'000
At 1 January 2013	121,115,683	76,108
Issue of shares	60,557,840	4,951
Issue costs	-	(364)
At 31 December 2013	181,673,523	80,695

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
Retained earnings	Cumulative net gains and losses less distributions made

Notes to the consolidated financial statements *(continued)*

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 and unapproved share option scheme

Exercise price per share	Grant date	Outstanding at start of year	Granted during the year	Lapsed/ cancelled during the year	Outstanding at year end	Final exercise date
2013						
Nil	27.05.10	2,800,000	-	-	2,800,000	26.05.20
25c	27.05.10	800,000	-	-	800,000	26.05.20
Nil	10.06.10	2,000,000	-	(800,000)	1,200,000	09.06.20
123p (179.58c)	11.06.10	250,000	-	(250,000)	-	10.06.20
123p (179.58c)	15.06.10	150,000	-	(150,000)	-	14.06.20
130.5p (201.08c)	30.12.10	600,000	-	(600,000)	-	29.12.20
143p(220.34c)	30.12.10	100,000	-	(100,000)	-	29.12.20
59p (90.67c)	19.01.12	1,487,500	-	(1,262,500)	225,000	25.08.15
30.5p (47.83c)	19.06.12	500,000	-	-	500,000	18.06.22
17.25p (26.32c)	26.04.13	-	4,675,000	(75,000)	4,600,000	25.04.23
Total		8,687,500	4,675,000	(3,237,500)	10,125,000	
WAEP (cents)		45.27	26.32	104.03	18.31	

Exercise price per share	Grant date	Outstanding at start of year	Granted during the year	Exercised during the year	Outstanding at year end	Final exercise date
2014						
Nil	27.05.10	2,800,000	-	(400,000)	2,400,000	26.05.20
25c	27.05.10	800,000	-	-	800,000	26.05.20
Nil	10.06.10	1,200,000	-	-	1,200,000	09.06.20
59p (90.67c)	19.01.12	225,000	-	-	225,000	25.08.15
30.5p (47.83c)	19.06.12	500,000	-	-	500,000	18.06.22
17.25p (26.32c)	26.04.13	4,600,000	-	-	4,600,000	25.04.23
Nil	30.01.14	-	2,250,000	-	2,250,000	30.06.20
6.5p (10.77c)	30.01.14	-	3,450,000	-	3,450,000	30.06.20
Total		10,125,000	5,700,000	(400,000)	15,425,000	
WAEP (cents)		18.31	6.5	-	14.43	

The Company's mid-market closing share price at 31 December 2014 was 5.5p (31 December 2013: 6.12p). The highest and lowest mid-market closing share prices during the year were 8.25p (2013: 24.25p) and 4.88p (2013: 5.75p) respectively.

During the year 400,000 share awards were exercised with the shares being distributed from the *Ncondezi Trust No.1 Ogier Employee Benefit Trustee Limited* holding. No new shares were issued as part of the exercise.

Of the total number of options outstanding at year end, 12,500,000 (2013: 6,300,000) had vested and were exercisable. The weighted average exercise price for the exercisable options at year end was 12.8p (2013: 12.3p).

The weighted average contractual life of the options outstanding at the year-end was seven years (2013: eight years).

Notes to the consolidated financial statements *(continued)*

14. Share-based payments *(continued)*

The fair value of the 15,425,000 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:

Grant dated	Note	Share price at date of grant	Exercise price per share	Volatility	Period likely to exercise	Risk-free investment	Fair value
19.01.12		90.67c	90.67c	50%	5 years	0.9%	39.63c
19.06.12		47.83c	47.83c	50%	5 years	0.7%	20.76c
26.04.13	1	26.32c	26.32c	37.65%	3-5 years	0.7%	8.10c
26.04.13	1	26.32c	26.32c	37.65%	3-5 years	0.7%	8.09c
26.04.13	1	26.32c	26.32c	37.65%	3-5 years	0.7%	8.08c
26.04.13	1	26.32c	26.32c	37.65%	3-5 years	0.7%	7.87c
26.04.13	1	26.32c	26.32c	37.65%	3-5 years	0.7%	8.23c
26.04.13		26.32c	26.32c	37.65%	4-5 years	0.7%	8.50c
31.01.14		10.77c	-	34.17%	5 years	2.4%	10.77c
31.01.14		10.77c	10.77c	43.57%	2 years	2.4%	3.18c
31.01.14		10.77c	10.77c	34.17%	5 years	2.4%	3.66c

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, and the volatility of 37.65% was calculated using the Company's own share price over 90 days.

The volatility of 43.57% and 34.17% was based on a statistical analysis of daily prices over the last two and five years respectively.

Based on the above fair values, the expense arising from equity-settled share options made to employees and Directors was US\$225,769 for the year (2013: US\$673,222).

15. Segmental analysis

The Group has three reportable segments:

- Mine project - this segment is involved in the exploration for coal and development of coal mine within the Group's licence areas in Mozambique
- Power project – this segment relates to the development of a 300MW integrated power plant next to the Group's coal mine concession areas in Mozambique
- Corporate - this comprises head office operations and the provision of services to Group companies

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker and are based on differences in products from which each reportable segment will derive its future revenues. The chief operating decision-maker has been identified as the Board of Directors.

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 2014 are as follows:

Income statement	Power project US\$'000	Mine project US\$'000	Corporate US\$'000	Group US\$'000
For the year ended 31 December 2014				
Segment result before and after allocation of central costs	(94)	(33,538)	(3,994)	(37,626)
Finance expense	(5)	(12)	(24)	(41)
Finance income	-	-	3	3
Loss before taxation	(99)	(33,550)	(4,015)	(37,664)
Taxation	-	-	(37)	(37)
Loss for the year	(99)	(33,550)	(4,052)	(37,701)

The segment results for the year ended 31 December 2013 are as follows:

Income statement	Power project US\$'000	Mine project US\$'000	Corporate US\$'000	Group US\$'000
For the year ended 31 December 2013				
Segment result before and after allocation of central costs	(62)	(2,265)	(4,714)	(7,041)
Finance expense	(5)	(16)	(21)	(42)
Finance income	2	-	36	38
Loss before taxation	(65)	(2,281)	(4,699)	(7,045)
Taxation	-	-	(65)	(65)
Loss for the year	(65)	(2,281)	(4,764)	(7,110)

Notes to the consolidated financial statements *(continued)*

15. Segmental analysis *(continued)*

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

Income statement	Power project US\$'000	Mine project US\$'000	Corporate US\$'000	Group US\$'000
For the year ended 31 December 2014				
Depreciation charged to the income statement	-	(298)	(20)	(318)
Impairment charge	-	(31,838)	-	(31,838)
Share based payments	-	-	(226)	(226)
Income tax expense	-	-	(37)	(37)

Income statement	Power project US\$'000	Mine project US\$'000	Corporate US\$'000	Group US\$'000
For the year ended 31 December 2013				
Depreciation charged to the income statement	-	(347)	(49)	(396)
Share based payments	-	-	(673)	(673)
Income tax expense	-	-	(65)	(65)

The segment assets and liabilities at 31 December 2014 and capital expenditure for the year then ended are as follows:

Statement of financial position	Power project US\$'000	Mine project US\$'000	Corporate US\$'000	Group US\$'000
At 31 December 2014				
Segment assets	8,715	9,889	3,691	22,295
Segment liabilities	(935)	(410)	(1,734)	(3,079)
Segment net assets	7,780	9,479	1,957	19,216
Property plant and equipment capital expenditure	3,848	611	-	4,459

The segment assets and liabilities at 31 December 2013 and capital expenditure for the year then ended are as follows:

Statement of financial position	Power project US\$'000	Mine project US\$'000	Corporate US\$'000	Group US\$'000
At 31 December 2013				
Segment assets	4,353	40,717	9,638	54,708
Segment liabilities	(770)	(590)	(1,392)	(2,752)
Segment net assets	3,583	40,127	8,246	51,956
Property plant and equipment capital expenditure	-	1	-	1
Exploration capital expenditure	2,109	2,095	-	4,204

16. Financial instruments

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

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

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

Principal financial instruments

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

	2014 US\$'000	2013 US\$'000
Loans and receivables at amortised cost		
Trade and other receivables	168	224
Cash and cash equivalents	4,515	6,756
Financial liabilities held at amortised cost		
Trade and other payables	3,006	2,635

General objectives, policies and processes

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

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

Notes to the consolidated financial statements *(continued)*

16. Financial instruments *(continued)*

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

2014	Total	on	in 1	Between 1	Between 6	Between 1 and
	US\$'000	demand	month	and 6	and 12	3 years
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Trade and other payables	3,006	-	3,006	-	-	-

2013	Total	on	in 1	Between 1	Between 6	Between 1 and
	US\$'000	demand	month	and 6	and 12	3 years
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Trade and other payables	2,635	-	2,635	-	-	-

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 2014 (2013: Nil).

Market risk

The Group does not currently sell any coal or 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%.

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 decrease net assets by US\$35,408 (2013: increased net assets by US\$343,766).

16. Financial instruments *(continued)*
Currency exposures

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

	2014					2013				
	US\$'000					US\$'000				
	Assets/(liabilities) held					Assets/(liabilities) held				
	USD	GBP	ZAR	MZN	Total	USD	GBP	ZAR	MZN	Total
US dollars	2,375	(751)	105	(52)	1,677	(1,765)	5,414	332	364	4,345
	2,375	(751)	105	(52)	1,677	(1,765)	5,414	332	364	4,345

17. 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 parties with whom the Group entered into transactions or had balances outstanding at 31 December 2014 and 31 December 2013 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.

MMDN Financial Services LLP ("MMDN")

During the year MMDN a firm which Manish Kotecha is a partner charged the Company US\$4,767 (2013: US\$4,505) and the Company charged MMDN \$18,111 (2013: nil) in respect of financial services. The net balance receivable at 31 December 2014 was US\$9,099 (2013: payable US\$375).

Mines Value Management Limited

During the year US\$24,615 (2013: US\$62,280) was paid to Mines Value Management Limited in respect of services provided by Nigel Sutherland. There was no balance outstanding at 31 December 2014.

Greenstone Capital LLP

The Company re-charged to Greenstone Capital LLP, a partnership of which Michael Haworth is a Partner, US\$183,383 (2013: US\$145,246) in respect of shared office expenses. There was no balance outstanding at 31 December 2014.

Zanaga UK Services Ltd

The Company re-charged to Zanaga UK Services Ltd, a subsidiary of Zanaga Iron Ore Company Limited, of which Michael Haworth is a Non-Executive Director, US\$159,157 (2013: US\$230,082) in respect of shared office expenses. There was no outstanding balance at 31 December 2014.

Polenergia Sp. zo.o ("Polenergia")

Polenergia, a subsidiary of Polenergia International S.arl, a company of which Jacek Glowacki is a Director, charged the Company US\$400,173 (2013: US\$51,000) in respect of consulting services. The outstanding balance at 31 December 2014 was US\$102,490 (2013: US\$ nil).

Christiaan Schutte

During the year Christiaan Schutte charged the Company US\$61,650 (2013: US\$10,810) in respect of consulting services. The balance outstanding at 31 December 2014 was US\$8,520 (2013: US\$ nil).

18. Lease commitments

Operating lease commitments – minimum lease payments

Ncondezi Services (UK) Limited administration office

In November 2011 the Group entered into a 3 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 2014 are as follows:

	2014	2013
	US\$'000	US\$'000
Within one year	-	350
After one year but not more than five years	-	-
Minimum lease payments	-	350

19. Commitments***Social development programme***

In December 2012 a Memorandum of Understanding was signed with the Mozambican Ministry of Mineral Resources and Energy in respect of a three year Social Development Programme, with a committed spend of US\$2m. During the year US\$118,087 (2013: US\$352,000) was spent as part of this programme.

In addition, upon receiving the mining concession a further US\$5m was committed. The expenditure programme is still to be negotiated with the Ministry of Mineral Resources and Energy.

Environmental licence fee

An environmental licence fee of 0.2% of the capital cost of construction is payable before commencement of construction.

Project finance fees

In September 2013 an engagement letter with KPMG was signed in respect of financial advisory services. A fee of US\$750,000 will become payable when the PPA is executed.

EMEM 5% investment in NCCML

Along with the issuance of the Mining Concession, Ncondezi's local subsidiary NCCML also concluded an Addendum to Mine Framework Agreement ("MFA") with Mozambican Ministry of Mineral Resources and Energy. Under the terms of the Addendum to the MFA, it has been agreed that the Government owned Mozambican Mining Exploration Company ("EMEM") will be granted a 5% free carry in the share capital of NCCML up to the start of the Ncondezi mine's construction. However, from the commencement of construction EMEM will be required to pay, through an agreed funding mechanism, for its share of any future equity funding obligations that may be required from the shareholders of NCCML including its share of the construction and commissioning costs of bringing the Ncondezi mine into commercial operation.

20. Events after the reporting date

In January 2015 the Company raised aggregate gross proceeds of £762,255 (\$1,156,264) through the open offer of 13,187,801 ordinary shares at 5.78p per share. The total number of shares outstanding as at 31 May 2015 was 249,849,844.

In February 2015, Christiaan Schutte was appointed Chief Operating Officer.

In May 2015, Paul Venter resigned as a Director and Chief Executive Officer.

In May 2015, Aman Sachdeva was appointed Non-Executive Director acting as AFC's nominated director.

Company Information

Directors	Michael Haworth (Non-Executive Chairman) Christiaan Schutte (Non-Executive Director) Peter O'Connor (Non-Executive Director) Estevão Pale (Non-Executive Director) Jacek Glowacki (Non-Executive Director) Aman Sachdeva (Non-Executive Director)
Company Secretary	Elysium Fund Management Limited PO Box 650, 1 st Floor, Royal Chambers St Julian's Avenue St Peter Port Guernsey GY1 3JX
Registered Office	2nd Floor Wickham's Cay II PO Box 2221 Road Town Tortola British Virgin Islands
Company number	1019077
Nominated Advisor	Liberum Capital Limited Ropemaker Place Level 12 25 Ropemaker Street London EC2Y 9AR
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

