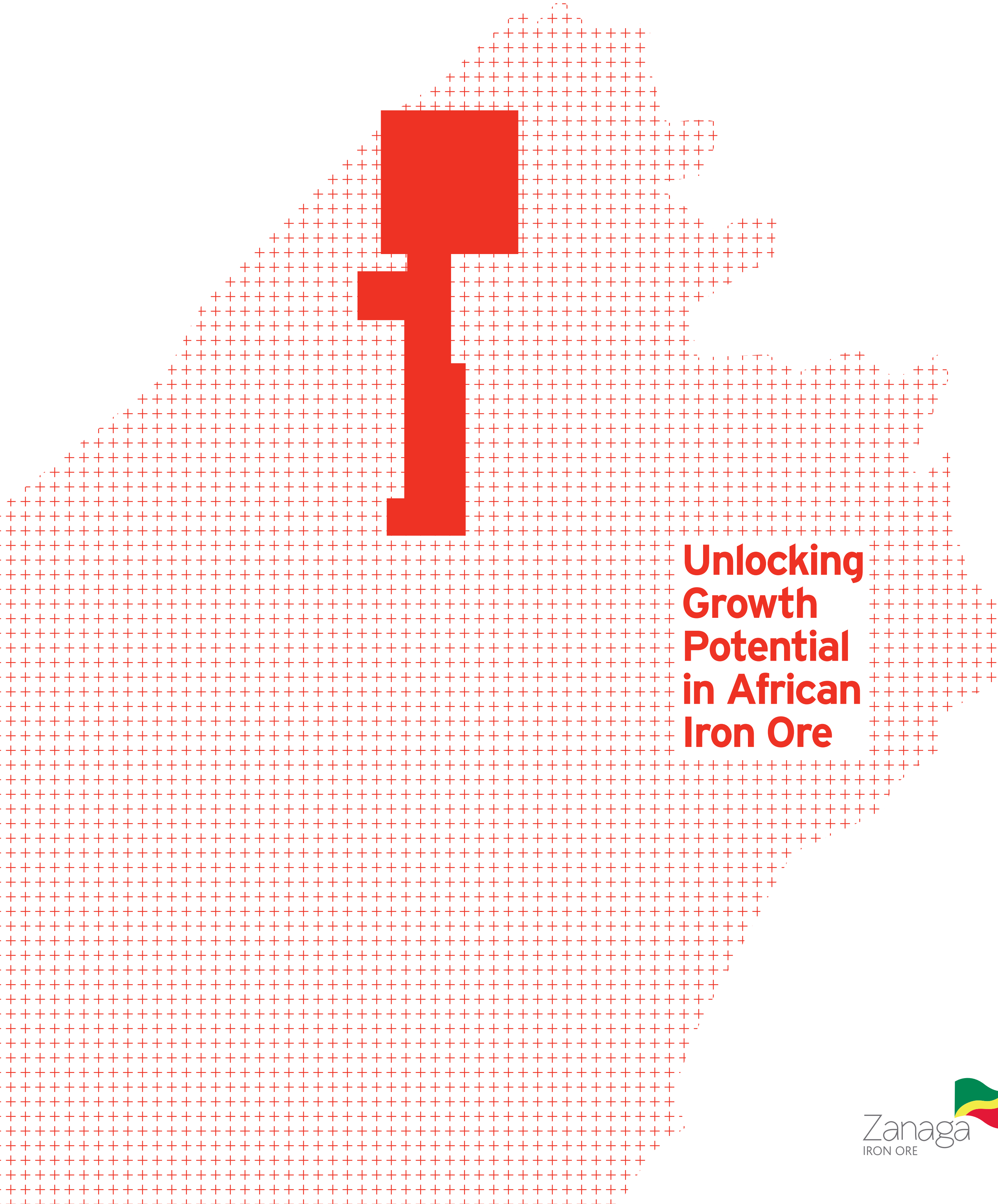
Zanaga Iron Ore Company Limited
Annual Report and Accounts 2010



# Unlocking Growth Potential in African Iron Ore

Zanaga
IRON ORE

# Zanaga Iron Ore Company Limited is the owner of 50% less one share interest in the Zanaga Iron Ore Project based in the Republic of Congo through its joint venture partnership with Xstrata. The Zanaga Iron Ore Project is focused on the management, development and construction of a world-class iron ore mine and related, processing, rail and port infrastructure

## A world class opportunity

**In addition to the strategic partnership with Xstrata, the combination of a number of positive factors supports the Board's view that the Zanaga Iron Ore Project ("Zanaga Project") represents a significant opportunity**

# 2010 highlights

## An eventful year against a backdrop of a strong recovery in global demand for commodities

Zanaga Iron Ore Company Limited listed on the London Stock Exchange's AIM market ("AIM") on 18 November 2010, raising US$50m for ZIOC

Phase I of the Pre-Feasibility Study completed in June 2010
- Phase II of the Pre-Feasibility Study to be published in Q3 2011 simultaneously with the results of the Value Engineering Exercise
- In September 2010 Xstrata extended its first call option over 50% plus one share interest in Jumelles Limited, the joint venture vehicle which owns the Zanaga Project, for an agreed amount of up to US$56.49m which was used to fund Phase II of the Pre-Feasibility Study

In February 2011 – Xstrata exercised its first call option and now owns 50% plus one share interest in Jumelles Limited
- The Zanaga Project is now managed by Xstrata, and Xstrata has agreed to fund the completion of a feasibility study in accordance with international best practice standards and Xstrata internal guidelines

Mineral resource upgrade based on work completed as at 2010 year end:
- Resource increase to 4.0 Bt from 3.3 Bt
- Grade improvement to 33.9% Fe from 32.8% Fe

Cash balance of US$49m as at 2010 year end

**$50m**
Capital raised on admission to AIM

**4.0 Bt**
2010 tonnage expansion from 3.3 Bt

**$49m**
Cash Balance at 2010 year end

**50%** less one share
ZIOC share interest in the Zanaga Project from February 2011

Far left
Drilling in progress

Left
On-site sampling lab

Below
On-site geological analysis

# Zanaga Iron Ore Company Limited ("ZIOC") at a glance

## ZIOC is the owner of a 50% less one share minority stake in the Zanaga Project in the Republic of Congo, also commonly known as Congo-Brazzaville

**ZIOC owned 100% of and managed the Zanaga Project up until February 2011 when Xstrata exercised its first call option to acquire its 50% plus one share majority stake in Jumelles Limited, the joint venture vehicle for the Zanaga Project. Xstrata is now ZIOC's majority joint venture partner and has effective management control of the Zanaga Project at both a shareholder and director level.**

**The Zanaga Project joint venture is currently focused on the management, development and construction of a world class iron ore mine and related, processing, rail and port infrastructure.**

**The Zanaga Project team is in the process of finalising the Pre-Feasibility Study while a Value Engineering Exercise has commenced as part of Phase I of a feasibility study.**

**The feasibility study will be fully financed by Xstrata, and is required to be completed in accordance with international best practice standards and Xstrata internal guidelines.**

**Xstrata has a further call option ("Second Call Option") to acquire all but not part of ZIOC's remaining 50% less one share minority stake in the Zanaga Project within 90 days of completion of the feasibility study in consideration for an agreed price, failing which a net present value based price determined by an independent expert in accordance with the valuation terms of reference set out in the Joint Venture Agreement between Xstrata and ZIOC.**

**ZIOC is well positioned for the future:**

4.0 Bt JORC compliant[1] mineral resource at 33.9% Fe grade

Resource upside potential
- JORC compliant[1] resource established over only 25km of a known 47km strike length of magnetic mineralisation of the Zanaga ore body
- Drill holes indicate the ore body continues at depth

Strategic and funding joint venture partnership with Xstrata, a global diversified mining company with a stated strategy to enter the iron ore market

Feasibility study fully financed by Xstrata

Flexibility in future funding obligations

Effective customer nomination rights over pro rata future equity share of iron ore production

1 Reported in compliance with the Joint Ore Reserves Committee Code 2004 (JORC Code 2004).


## Total Mineral Resource Statement of the Zanaga Project

### As at 1 January 2011

| Classification | Tonnes (Mt) | Fe[2] (%) | SiO2[3] (%) | P[4] (%) | Al2O3[5] (%) | Mn[6] (%) | LOI[7] (%) |
|---|---|---|---|---|---|---|---|
| **Measured** | - | - | - | - | - | - | - |
| **Indicated** | 1,720 | 36.3 | 41.4 | 0.046 | 2.70 | 0.10 | 1.20 |
| **Inferred** | 2,300 | 32.0 | 45.3 | 0.047 | 3.80 | 0.11 | 1.50 |
| **Total** | 4,020 | 33.9 | 43.6 | 0.047 | 3.30 | 0.11 | 1.40 |

Reported at a 0% Fe cut-off grade within an optimised Whittle shell representing a metal price of 120 USc/dmtu.

The Mineral Resource statement set out above is reported in accordance with the terms and definitions set out in the JORC Code (2004) and presents the Indicated Mineral Resource, the Inferred Mineral Resource and the combined total as at 1 January 2011 as estimated by SRK Consulting Limited in March 2011, based on drilling conducted to 24 November 2010. This analysis has been restricted to material that has reasonable prospects of eventual economic extraction by constraining it within an optimised Life of Mine (LoM) pit shell, determined using a long-term price of 120 USc/dmtu. As at this date, this amounts to some 4.0 Bt grading 33.9% Fe, 43.6% SiO2, 0.047% P, 3.3% Al2O3, 0.11% Mn and 1.4% LOI.

Geological Summary

The Zanaga deposit, defined by an airborne geophysical survey over 47km in length and typically between 0.5 and 3.0km in width, is hosted in a north-south oriented greenstone belt.

The iron bearing lithologies are itabirites/BIF, interbedded with basic lavas. Typically, the itabirites consist of layers of iron-rich and quartz rich meta-sediments which alternate on a millimetre to centimetre scale and which have been crosscut by late intrusions and dolerite dykes.

The weathered itabirite units which overlie un-weathered ore are typical of iron ore deposits and characterised by an enrichment in iron due to a mass reduction and associated leaching of the silicate layers.

The Competent Person who has reviewed the Mineral Resources as reported by ZIOC is Dr John Arthur (CEng MIMMM, CGeol FGS), who is an employee of SRK Consulting. Dr Arthur is a Member of the Geological Society of London (CGeol) and of the Institute of Materials, Minerals and Mining (CEng) and has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a Competent Person in terms of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC Code 2004 Edition) and is a "Qualified Person" under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects'.

[2] Fe –Iron.
[3] SiO2 Silica.
[4] P Phosphorus
[5] Al2O3 Alumina.
[6] Mn Manganese.
[7] LOI Loss on Ignition (indicative of moisture content).

**Clifford Elphick**
**Non-Executive Chairman**

# Chairman's statement

## We made a successful debut on the AIM market and our joint venture with Xstrata secures the future funding requirements for the Zanaga Project's feasibility study

It has been an eventful year for ZIOC. Against a backdrop of a strong recovery in global demand for commodities, we made a successful debut in November 2010 on the AIM market of the London Stock Exchange raising US$50m of new money. We completed Phase 1 of the Pre-Feasibility Study ("PFS") on the Zanaga Iron Ore Project ("Zanaga Project") which, in turn, contributed to the crystallisation in early 2011 of our strategic joint venture partnership with Xstrata ("JV"), securing the future funding requirements of the completion of the Feasibility Study ("FS") for the Zanaga Project.

### Significant achievements in the year

Throughout 2010, ZIOC and Xstrata have focused in greater detail on the first steps towards the development and construction of a world-class iron ore project capable of mining, processing, transporting and exporting iron ore concentrate from the Republic of Congo. In doing so, the following key milestones were achieved during 2010:

- The work streams for Phases I and II of the PFS have been completed at a joint cost of approximately US$105m.
- The conclusion in September 2010 of an Addendum to the 2007 Mining Convention with the Republic of the Congo. The 2010 Addendum sets out in greater detail the legal framework for the further development of the Zanaga Project in key areas such as tax & customs, allocation of project infrastructure, permitting & licensing and the environmental & social matters.
- A significant amount of drilling was completed which has resulted in an increase in the JORC compliant mineral resource to 4.0 Bt from 3.3 Bt and an increase in grade to 33.9% Fe from 32.8% Fe. The drilling was conducted over only 25km of the known 47km strike length of magnetic mineralisation, leaving potential for future expansion of the resource size and potential flexibility to increase estimated annual production levels.
- On 18 November 2010 ZIOC listed on the AIM market of the London Stock Exchange raising US$50m of new money with a further US$50m placed on behalf of selling shareholders.

### A focused strategy

Our objective is to maximise the value of ZIOC's 50% less one share minority stake in the Zanaga Project pending the possible exercise by Xstrata of its Second Call Option in respect thereof. Following Xstrata's exercise of its first call option it now has management control of the Zanaga Project and is obliged under the terms of the joint venture agreement ("JVA") to fund and deliver a FS in accordance with international best practice standards and Xstrata's internal guidelines.

As a result the Zanaga Project has been significantly derisked. When the FS is complete, if Xstrata does not exercise the Second Call Option, ZIOC will have a number of future funding options including (i) dilution at NPV during construction; or (ii) a right to fund ZIOC's pro rata equity share of construction capital expenditure.

With a cash balance of US$49.3m as at 31 December 2010 ZIOC believes it has adequate funds at its disposal to meet its working capital requirements for the duration of the FS phase and does not currently foresee further funding requirements until completion of the FS.

Far left
**Excavation work**

Left
**Air quality monitoring**

## A potential world class opportunity

In addition to the strategic partnership with Xstrata, the combination of a number of key strengths supports the Board's view that the Zanaga Project represents a significant opportunity. Large scale resources have been identified from targeted areas of the Zanaga ore body that have the potential to sustain a high production mine over the long-term. Exploration work to date has indicated that the quality of the ore is characterised by a shallow, soft and rippable haematitic itabirite cap which overlies a magnetite banded iron formation or BIF protore which jointly demonstrate production potential of iron ore product with low deleterious elements. To date only 25km of the known 47km strike length of magnetic mineralisation has been drilled to define the current mineral resource, leaving potential upside to expand production and enhance value.

## Access to low cost energy

The PFS work to date indicates that the Zanaga Project has the potential to be a low cost producer of iron ore. Of particular interest is the potential for low cost energy resulting from the availability of large volumes of gas from defined on-shore gas fields and producing off-shore oil platforms. Following the suggestion from the Republic of the Congo for oil producers to halt the flaring of natural gas, established oil and gas producer Eni S.p.A., constructed a 150MW power plant in Pointe-Noire to harness the local natural gas reserves. The 150MW plant has been commissioned and ZIOC understands that there are phased 150MW expansion plans up to a total capacity of up to 750MW at the same facility.

## Transport infrastructure

Transportation infrastructure is one of the critical factors in developing any major iron ore project. In the course of 2010 Jumelles ("Jumelles" or "JVCo") and its consultants have refined its transport options and determined a preliminary corridor for a standalone railway network and continue optimising this process based on, amongst others, the ongoing receipt of more accurate geotechnical and LIDAR topographical data. PFS results to date further indicate that the Zanaga Project could derive benefit from the access to an excellent targeted bulk commodity port site which is located only 9km to the north of the existing public port of Pointe-Noire which also currently services the local oil industry. Twenty (20) metre deep tidal water is located approximately 2km off-shore with a natural channel offering the possibility, with limited dredging, of a 1.2 to 1.5km long loading trestle with no required breakwater which ZIOC is advised could present a significant advantage compared to other global iron ore projects.

## Project team and consultants

In the course of 2010 a number of additional, talented key employees with a proven track record in the evaluation of iron ore projects in francophone Africa were recruited for the Zanaga Project team, supported by leading consultants with specific expertise in working on exploration stage development projects and evaluation of iron ore projects.

Following the exercise by Xstrata of its First Call Option (as set out below), ZIOC has engaged Wardrop Engineering Inc and Mr Carl Wilson of Wilson Campbell & Associates as its dedicated team of consulting engineers to advise ZIOC on all material technical aspects of the Zanaga Project. These engagements provide ZIOC with the much required technical skills and expertise

**$105m**
Invested in PFS work programme

**$50m**
Capital raised listing on AIM

in the key areas of rail, port and mine site development appropriate for a large scale mining and infrastructure project such as Zanaga.

## A key strategic partnership with a mining major

We are very pleased to have built a strong relationship with Xstrata, a global diversified mining group with a stated strategy to enter the iron ore market. Xstrata has been closely aligned to the Zanaga Project since October 2009 when it entered into a call option agreement ("First Call Option") for the acquisition of its 50% plus one share majority stake in Jumelles the joint venture holding vehicle, for the Zanaga Project, in consideration for payment of an option premium of US$50m. This option premium was used by the JVCo to fund Phase I of the PFS which was completed in June 2010.

In the course of the second half of 2010 Xstrata extended its First Call Option in consideration for funding Phase II of the PFS for up to an additional US$56.49m, subject to the terms and conditions of the First Call Option.

In February 2011 Xstrata exercised the First Call Option and now owns a 50% plus one share majority stake in the JVCo. In consideration for the majority stake Xstrata must fund and deliver the FS in accordance with international best practice standards and Xstrata's internal guidelines.

Xstrata is now ZIOC's joint venture partner and has effective control of the Zanaga Project at both a shareholder and director level. In this regard, it is important to mention that many of the key historic management team members recruited by Jumelles still continue to work with Xstrata management and build on the valuable work results achieved to date.

## Xstrata's Second Call Option

The exercise of the First Call Option by Xstrata has triggered the implementation of the JVA between ZIOC and Xstrata governing the working relationship between our two companies. It is important to note that the JVA stipulates that within 90 days of completion of the FS, Xstrata has the right to exercise a further call option ("Second Call Option") to acquire all (but not part of) ZIOC's remaining 50% less one share minority stake in the JVCo in consideration for an agreed price, failing which a net present value based price determined by an independent expert in accordance with the JVA's agreed valuation terms of reference. The exercise of this Second Call Option is not subject to shareholder approval and together with the JVA provides ZIOC and Xstrata with a clear legal and commercial framework, goal and timetable within which to further determine and improve on the Zanaga Project's value and feasibility.

## PFS and the current value engineering analysis

The results from Phase II of the PFS will be published in Q3 2011 simultaneously with the results of the Value Engineering Exercise ("VEE") currently undertaken and commissioned as an initial stage to the FS. The VEE aims to review and refine those options and opportunities that could positively impact on the net present value ("NPV") of the Zanaga Project, either through added value or the reduction of risk. Further details on the VEE work stream are set out in the Business Review on pages 8 to 21.

## Recovering commodity markets

2010 saw a clear reversal of 2009's cautious outlook for global growth and specifically commodities. The recovery of world growth in 2010 caused a return in demand for commodities on a significant scale. Iron ore prices were driven by renewed global demand for steel as well as closed domestic Chinese capacity not being able to re-open to meet returning demand, this being marginally tempered by issues such as sovereign debt concerns, differing monetary policies and most importantly, indications of Chinese credit tightening.

A recovery in market conditions is now well under way as investor confidence grows and consumption demand for commodities continues. 2011 has seen iron ore prices rising further, reaching record highs as a result of continued demand from the emerging markets especially China as well as a surprising recovery in demand from established Western economies. Growing confidence combined with tighter supply at the start of the year has driven iron ore prices to new highs. This momentum abated following conflicts in the Middle East and North Africa as well as the tsunami disaster in Japan. However continued constraints on expanding iron ore supply indicate that prices will remain robust to 2014, normalising at a level that will result in the removal of high cost production. Evidence of constraints have appeared in delays to the timing of planned production expansions as well as increasing levels of expected capital expenditure, thus providing substantial support to the iron ore price in the near term.

## Corporate responsibility

From the outset of our work on the Zanaga Project our strategy has been to engage and form partnerships with government and local communities and as such the Zanaga Project has engaged experts in the fields of health, safety, community liaison and the environment to ensure that the Zanaga Project is developed in a responsible manner in accordance with internationally accepted industry standards and practice. This supports our objective of maximising the Zanaga Project's value for our shareholders whilst putting in place and adhering to policies and systems that will ensure

**Right**
**Project camp**

**Below**
**Water quality testing**

that local communities and the Republic of Congo at large receive benefits from the ongoing development of the project.

Although the Zanaga Project is in its early stages, it is already a large direct and indirect local employer. Over the past year we have increased our investment in the ongoing education and training of our local workforce and communities thereby stimulating the local economy (before any revenues flow from the mine) through the PFS work programme and related expenditure. Studies of the mine site and related areas have been conducted by internationally recognised experts and their findings have been integrated into our project planning. We are confident that under Xstrata's management and in collaboration with ZIOC's technical consultants the Zanaga Project will be run to the highest standards and will, subject to its feasibility, provide a hugely beneficial source of employment and revenue for the country as a whole.

## An experienced Board

We have assembled a well-balanced Board with in-depth experience in the financing, evaluation and development of mining projects and the management of public companies. I am confident that the extensive experience of the Board of Directors in these critical areas will ensure ZIOC is able to actively monitor the completion of the FS and to achieve our strategic objective – to maximise the value of the Zanaga Project.

I would like to thank the Board for their contribution and guidance during the flotation process and our staff for their commitment and hard work over the last year.

## Looking forward

Following the VEE as set out above and below, it is planned to complete the FS work. It is anticipated that the VEE as a first phase of the FS will complete in Q3 2011 when the next stage of review will occur. Xstrata must use its reasonable endeavours to deliver the FS no later than three months prior to the expiration of the licenses in May 2014, assuming a second extension of the Zanaga Project exploration licences in May 2012. As a result, we do not currently foresee any substantial near-term spending obligations for ZIOC until completion of the FS. The cost of the ZIOC personnel, financial advisors and the technical experts appointed to oversee the project for ZIOC are currently our only budgeted expenditures during the VEE and FS work programmes.

Our focus going forward is now on monitoring the Zanaga Project's further development and the delivery of the FS. Key milestones for 2011 will therefore include the advancement of the Zanaga Project's Environmental and Social Impact Assessment work stream, ongoing collaboration with the Government of the Republic of Congo on the Zanaga Project's development and paving the way for the conclusion of a definitive Mining Convention in respect of the Zanaga Project's eventual mining phase and, of course, the processing and finalisation and publication of the PFS and VEE results.

The Board believes that the continued demand for iron ore and the quality of the Zanaga Project's assets will underpin the business case for the substantial investment programme now being undertaken by Xstrata, our joint venture partner, and that the next phase in the development of the Zanaga Project will continue to build shareholder value.

In the circumstances, ZIOC looks forward to the finalisation of the definitive results of the PFS and VEE currently in progress, in order to gain further insight with Xstrata into the exciting potential of this project whilst embarking on its FS phase.

**Clifford Elphick**

Non-Executive Chairman
Zanaga Iron Ore Company Limited

# Business review

## In addition to the strategic partnership with Xstrata, the combination of a number of positive factors supports the Board's view that the Zanaga Iron Ore Project represents a world class opportunity

- Financially robust
- Derisked project
- Significant mineral resource

# Operations review

## The PFS commenced in September 2009 and was conducted in line with internationally accepted best practice standards

**Above**
**Core sampling**

**Right**
**Drill work in progress**

### Pre-Feasibility Study ("PFS") and Value Engineering Exercise Phases

The PFS commenced in September 2009 and was conducted in line with what the Directors believe are internationally accepted best practice standards. Total PFS related expenditure to 31 March 2011 totalled US$105.45m. During this period the PFS project work programmes covered a number of work streams including, (i) mineral resource definition; (ii) an assessment of the economic and technical viability of the various options for the development of the iron ore body including mining methods, processing, product range, waste disposal and management, tailings storage and containment, mine site infrastructure location and design, rail or pipeline options, port sites, product marketing, environmental and social aspects, commercial aspects, legal framework and government relations.

The PFS was subdivided into two key phases. The works streams for Phase I were completed in June 2010 and Phase II in the course of Q1 2011, save for the processing of its results into a finalised PFS report.

Following the exercise of Xstrata's First Call Option in February 2011 and its assumption of majority control of the Zanaga Project, Xstrata and ZIOC jointly announced the commencement of a Value Engineering Exercise ("VEE") including a scope and options review to take place during Q2 and Q3 2011 as an initial phase to the Feasibility Study work programme.

The VEE further builds and expands on the opportunities to re-assess capex and opex options recognised as part of the PFS work undertaken to Q1 2011 by Jumelles. A team of internal and external experts has been assembled by Jumelles to conduct the VEE and investigate a broader range of long-term development opportunities for the Zanaga Project before the final options and scope for the full FS are finalised.

The VEE commenced on 16 March 2011 with initial workshops generating and prioritising specific ideas and opportunities for the Zanaga Project that have the potential to impact positively on NPV, either through added value or reduced risk. A selection of specific opportunities have been outlined, forming the basis of the VEE, and will be studied in more detail over the coming months.

In view of these plans, ZIOC and Xstrata expect to be able to publish the completed results of the PFS simultaneously with the results of the VEE at the end of Q3 2011.

### Mineral resource and drilling programme

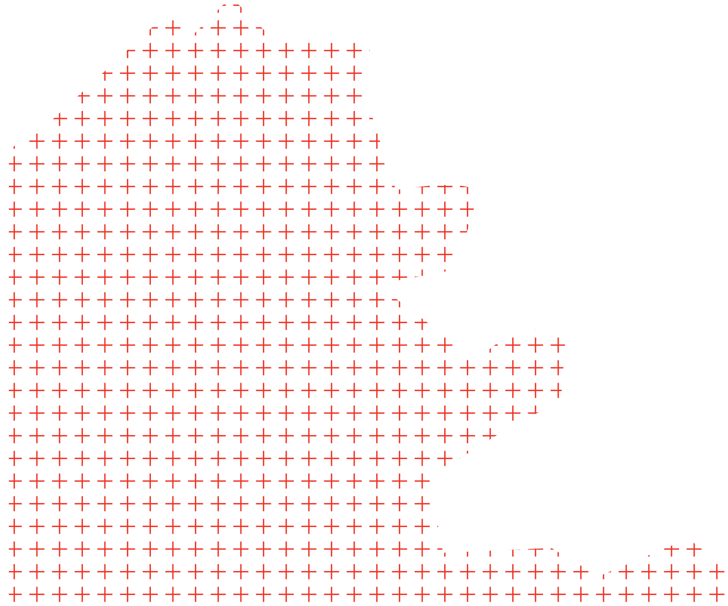
#### Mineral resource

In ZIOC's AIM admission document of November 2010 an estimated 3.3 Bt JORC compliant mineral resource was set out in the competent person's report ("CPR") based on drilling results up to end of June 2010. An updated mineral resource was announced in April 2011 and includes the results of the additional drilling completed to 24 November 2010. The adjacent table summaries the total drilling completed to date on the Zanaga Project.

#### Drilling programme

Since commencement of exploration drilling operations in early 2008 until completion of Phase I of the PFS a total of 42,706m were drilled, 11,224m of which came from 80 DD holes and 31,482m came from 388 RC holes. The agreed objective of the drilling programme until then was to define a JORC compliant mineral resource of 1 Bt of iron ore.

| Drilling completed | Metres | Holes |
|---|---|---|
| At 30 Jun 2010 (IPO JORC resource of 3.3 Bt) | 42,706 | 468 |
| 30 Jun 2010 to 24 Nov 2010 (New JORC resource of 4.0 Bt) | 24,726 | 191 |
| 24 Nov 2010 to 28 April 2011 (Not yet included in JORC resource) | 31,463 | 155 |
| Total to date | 98,895 | 814 |



During Phase II of the PFS a further 24,726m was drilled, which, based on drilling completed up to and including 24 November 2010, resulted in a stated JORC compliant mineral resource of 4.0 Bt. At the commencement of Phase II of the PFS the initial target was 1.5 Bt of haematite dominated mineralisation (50% Indicated and 50% Inferred) but due to the drill programme being focused on the central 25km mineralised zone the resource target was revised to 2.7 Bt of combined haematite/magnetite.

A comprehensive resource drilling programme was conducted during 2010 utilising on average a total of 5 drill rigs (3 Reverse Circulation and 2 Diamond Drilling) operating 24 hours per day. A further 2 Diamond Drilling rigs were en route to site in Q4 2010 and are now operational bringing the total number of operational rigs to 7.

### Geology

At the end of the November 2010 Phase II resource cut-off date the total number of samples assayed amounted to 21,045. In order to obtain an initial Fe analysis on the samples and reduce freight and turnaround time, a sample preparation laboratory and a Niton XRF analyser machine were established and utilised on site at the Zanaga exploration camp. To date 38,855 Niton samples have been analysed using the Niton analyser and results show a very good correlation with the external laboratory assays received to date.

Using drill information combined with resistivity/magnetic data as well as structural observations a detailed geological and structural understanding of the deposit(s) is being established which allows for accurate drill collar location and accurate assumptions as to the geometry of the ore bodies.

## Feasibility Study ("FS") Work Programme

As stated above a multidisciplinary FS to bankable standards has commenced. The major components of the FS phase include:

- Value Engineering Exercise including Scope and Options Review;
- Engineering studies to investigate the potential mine site, transport corridor and power related infrastructure costs of the Zanaga Project;
- Finalisation of an Environmental and Social Impact Assessment (ESIA) study, in accordance with international standards and best practice;
- Completion of the drilling programme focused on refining and increasing the levels of confidence in the 4.0 Bt resource identified to date; and
- Conclusion with the Government of the Republic of Congo of a comprehensive and definitive Mining Convention to cover the exploitation phase of the Zanaga Project.

**$105m**

**PFS related expenditure to 31 March 2011**

**4 Bt**

**JORC Compliant Mineral Resource identified to date**

**7**

**Number of drill rigs operating 24hrs/day**

# Financial review

## The principal business currently comprises managing ZIOC's 50% less one share minority interest in the Zanaga Project and monitoring the preparation of the Feasibility Study

### Results from operations

The financial statements contain the results for ZIOC's first full year of operations following its incorporation on 19 November 2009. ZIOC made a loss in the year of US$13.2m compared to a loss of US$1.6m in the short period from ZIOC's date of incorporation to 31 December 2009. The loss for the year comprised:

| | **1 January to 31 December 2010 US$000** | 19 November to 31 December 2009 US$000 |
|---|---|---|
| General expenses | **(2,755)** | (96) |
| Net foreign exchange loss | **(1,343)** | – |
| Share-based payments | **(964)** | – |
| Share of loss of associate | **(8,805)** | (1,476) |
| Interest income | **17** | – |
| Loss before tax | **(13,850)** | (1,572) |
| Share of other comprehensive income of associate – foreign exchange | **621** | (85) |
| Total comprehensive income | **(13,229)** | (1,657) |

General expenses of US$2.7m consist of cash bonuses of US$1.0m paid to certain key employees on admission to trading on AIM in November 2010, US$0.9m of professional fees and US$0.8m of other general operating expenses.

The foreign exchange loss of US$1.3m can be attributed to the impact of the weakening of the US Dollar against UK Sterling during the year on the cash balances that arose following the listing that are held in UK Sterling.

The share-based payment charge reflects the expense associated with the grant of options to ZIOC's directors under ZIOC's long-term incentive plan ("LTIP") and to the expense associated with the grant of share options to one of ZIOC's consultants. Further details of the LTIP and options granted can be found in the Notes to the Accounts at pages 39 to 49.

The share of loss of associate reflected above relates to ZIOC's investment in Jumelles which generated a loss of US$6.2m in the year to 31 December 2010, together with a charge of US$2.5m made for equity accounting purposes for share options provided to employees of Jumelles. The loss comprised of US$6.0m administrative expenses and a tax charge of US$0.3m.

During the year, Jumelles spent US$56.1m on exploration, increasing its capitalised exploration assets to US$79.0m.

### Financial Position

ZIOC's net asset value ("NAV") of US$241.2m comprises of US$192.8m investment in Jumelles, US$49.3m of cash balances and US$0.9m of net current liabilities.

| | **2010 US$000** | 2009 US$000 |
|---|---|---|
| Investment in associate | **192.8** | 198.4 |
| Cash | **49.3** | 8.1 |
| Other net current liabilities | **(0.9)** | (0.2) |
| Net assets | **241.2** | 206.3 |

**Right**
**On-site nurseries**

**Far right**
**Sample analysis lab**

**Cost of investment**

The investment in associate relates to the value of the investment in Jumelles which as at 31 December 2010 owned 100% of the Zanaga Project. The value of this investment has decreased by US$5.7m due to the US$8.2m loss made by Jumelles during the year net of US$2.5m of additions. The additions relate to the share-based payments made to the employees of Jumelles which have augmented the value of the investment.

As at 31 December 2010, Jumelles had aggregated assets of $101.8m (2009: US$62.4m) and aggregated liabilities of US$30.8m (2009: US$24.8m). Assets consisted of US$79.0m of capitalised exploration assets and US$13.6m of other fixed assets including property, plant and equipment (2009: US$22.9m and US$6.7m respectively). A total of US$56.1m of exploration costs were capitalised during the year. Cash balances totalled US$5.0m (2009: US$3.8m) and other current assets had decreased from US$29.0m to US$4.2m as the call option premium was utilised during the year.

## Cash flow

Cash balances have increased by US$41.2m since 31 December 2009. The placing of shares on AIM in November 2010 raised a net US$44.6m: operating activities utilised US$2.3m and foreign exchange differences generated a cash loss of US$1.1m as the value of the US Dollar weakened against the UK Sterling thereby reducing the value of the Sterling denominated cash balances.

## Fundraising activities

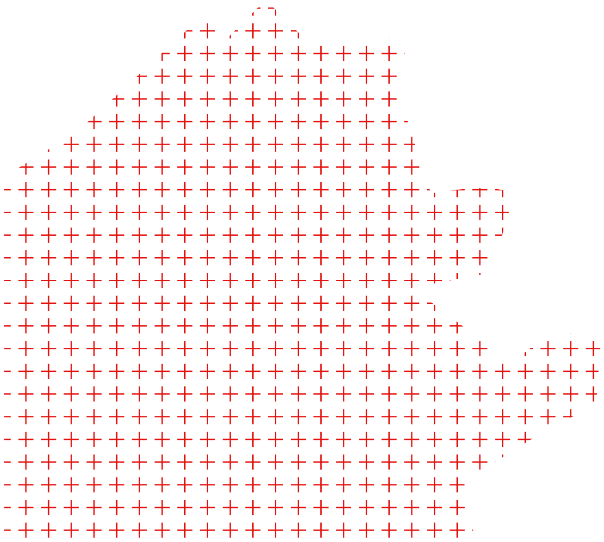
ZIOC listed on AIM on 18 November 2010, placing 39.8 million ordinary shares at 156 pence each. The placing comprised of 19.9 million new shares issued by ZIOC and the sale of 19.9 million sale shares by certain then existing shareholders. These new shares were issued for cash of US$49.5m, before expenses of US$5.4m. A total of 5.6 million ordinary shares were issued to the Employee Benefit Trust on ZIOC's Admission to AIM in order to meet obligations under ZIOC's LTIP.

## Risk management

The Board considers risk assessment to be important in achieving its strategic objectives. There is a process of evaluation of performance targets through regular reviews by senior management to forecasts. Project milestones and timelines are regularly reviewed.

## Risks and uncertainties

The principal risks facing ZIOC are set out overleaf. A more comprehensive summary of risks associated with ZIOC is set out in Part V of ZIOC's AIM Admission Documents of 18 November 2010. Risk assessment and evaluation is an essential part of the Group's planning and an important aspect of the Group's internal control system.



## The successful development of the Zanaga Project depends on adequate infrastructure: a transportation system through which it can deliver future iron ore product to a port for onward export by sea

**Risks relating to the agreement with Xstrata**

Whilst Xstrata has agreed to fund a full FS to be delivered to an international best practice standard and in accordance with Xstrata's internal guidelines at a cost of at least US$100m or complete the FS itself. In the event that there is a material adverse change, Xstrata's funding obligations under the JVA will be suspended until the material adverse change has ceased.

The change of control provisions contained in the JVA could act as an impediment to a takeover of ZIOC as in such circumstances Xstrata would have the right to acquire all of the shares which it does not hold in Jumelles. Similarly, all of the rights attaching to the preferred right contained in the JVA shall lapse if there is a change of control in respect of ZIOC and this could also act as an impediment to a takeover.

The principal business of ZIOC currently comprises managing ZIOC's interest in the Zanaga Project, which is controlled by Xstrata at both a shareholder and director level, and monitoring the preparation of the FS.

When the FS is completed, Xstrata may exercise its right to make an offer to ZIOC for all of the ordinary shares ZIOC holds in Jumelles. The exercise of this right is not subject to shareholder approval. If Xstrata exercises this right under the JVA, ZIOC will no longer hold any ordinary shares in Jumelles Limited and will receive the consideration proceeds from Xstrata for the ordinary shares in Jumelles Limited. There is no guarantee that the consideration paid by Xstrata will be in excess of the underlying value of ZIOC's ordinary shares.

**Exploration and mining risks**

The business of exploration for and identification of iron ore deposits is speculative and involves a high degree of risk. Future results, including resource recoveries and work programme plans and schedules, will be affected by changes in market conditions, commodity price levels, political or regulatory developments, timely completion of exploration programme commitments or projects, the outcome of commercial negotiations and technical or operating factors. Even if there are economically recoverable deposits, delays in the construction and commissioning of mining projects or other technical difficulties, including relating to infrastructure and permitting may make the deposits difficult to exploit.

**Transportation infrastructure**

The successful development of the Zanaga Project depends on adequate infrastructure. The region in which the Zanaga Project is located is sparsely populated and difficult to access. Central to the Zanaga Project becoming a commercial mining operation is access to a transportation system through which it can transport future iron ore product to a port for onward export by sea. In order to achieve this it will be necessary to build a port facility at Pointe-Noire and build a rail network or other transportation for which permits, authorisations and land rights will be required and substantial finance required.

**Above**
**Surface evidence of iron ore content**

In relation to the proposed port and rail network, the necessary permits, authorisations or land access rights have not yet been obtained. In relation to the proposed port facility, the permitting and authorisation process is at a very early stage. Failure to complete the proposed rail network and/or to establish the port or to do either in an economically viable manner, could have a material adverse effect on the Zanaga Project.

**Iron ore prices and undefined market and product**

The principal business of the Zanaga Project is the exploration for iron ore. The ability to raise finance and the Zanaga Project's future financial performance is largely dependent on movements in the price of iron ore. A detailed market study to identify the potential demand for product has not yet been undertaken and there are no assurances that the demand for the Zanaga Project's product will be sufficient in quantity or in price to ensure the economic viability of the project.

**Host country related risks**

The operations of the Zanaga Project are located entirely in the Republic of Congo. These operations will be exposed to various levels of political, regulatory, economic, taxation and other risks and uncertainties. As in many other countries, these (varying) risks and uncertainties include, but are not limited to: political, military or civil unrest; fluctuations in global economic and market conditions impacting on the Congolese economy; terrorism; hostage taking; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; nationalisation; illegal mining; restrictions on foreign exchange and repatriation. In addition, the Republic of Congo is an emerging market and, as a result, is generally subject to greater risks than in the case of more developed markets.

**Risks relating to the Zanaga Project's exploration licences**

Subject to fulfilment of all related obligations and undertakings, the Zanaga Project's exploration licences are renewable for a further term of two years but this is outside of the project's control and there can be no guarantee that this will indeed happen. If renewed, there will be a reduction of the surface area covered by the Zanaga Project's exploration licences of up to 50% and there can be no guarantee that the Congolese Government will accept any proposal as to which land is to be relinquished.

**Free carried interest**

The holder of an exploitation licence is required to incorporate a Congolese company to be the operating entity and the Congolese government is entitled to a free carried interest in projects which are at the production phase. This participation cannot be less than ten per cent. There is, therefore, a risk that the government will seek to obtain a higher participation in the Zanaga Project.

**Left**
**Drilling in progress**

# Corporate responsibility

## Creating a positive presence through a responsible approach to business

## Managing our impacts and opportunities to ensure we maximise value for all our stakeholders

## Ensuring that the Zanaga Project's value is maximised for all our stakeholders through a responsible approach to business

## Setting the foundations for a positive long-term presence

# Corporate responsibility

## Corporate responsibility is a fundamental aspect of our business as it is intrinsically linked to the Zanaga Project's licence and therefore our ability to generate shareholder value. It encompasses our compliance to national and international laws, standards, practices and regulations

### Our approach to corporate responsibility refers to six key areas of impact and opportunity

1. Local communities & human rights
2. Environment
3. Health & safety
4. Employees
5. Business conduct
6. Corporate governance (discussed elsewhere within this report)

In each of these areas we set policies, devise and maintain systems, set targets and monitor performance. We strive to communicate this information to our shareholders and other stakeholders and apply the feedback we receive to enhance our approach.

Our management team has a wealth of experience in successfully developing natural resource potential while adhering and contributing to corporate responsibility best practice. We have applied this knowledge to the Zanaga Project along with the knowledge of experienced consultants contracted to conduct the Zanaga Project's work programmes. Following the exercise by Xstrata of its first option to acquire control of the Zanaga Project, ZIOC no longer controls the Zanaga Project and has no other operations. However this section of our annual report details our activities in these areas during 2010 as managers of the Zanaga Project and outlines how we intend to apply our approach in the future in the event that any other project is undertaken.

### CR in the Zanaga Project

#### Policy & standards

The policy of Jumelles has been to work in partnership with internationally recognised and trusted organisations and to coordinate activities in consultation and partnership with government and communities. Jumelles observes the International Finance Corporation (IFC) Performance Standards relevant to the Zanaga Project and other international standards recognised by the IFC and the International Council on Mining and Metals (ICMM), as well as African Development Bank standards and guidelines.

#### Overview of work to date

Jumelles is in the process of finalising the results of the PFS, which has involved exploration of the Zanaga Iron Ore Project licence areas including a comprehensive drilling programme to define the potential iron ore resource. Over the course of 2010 work has been completed with:

- Two lost-time incidents (LTIs)
- Zero high potential incidents
- Zero significant environmental incidents
- Zero fines or warnings from the relevant authorities
- Full consultation with, and support from, the government and local communities.

With the aid of internationally recognised companies and organisations the Jumelles team has conducted a significant amount of research on the potential impact of the Zanaga Project on the environment and communities within the Zanaga licence areas and along the currently targeted transport corridor and port area. Further detail on this research is set out below.

### Local communities & human rights

#### Background

ZIOC believes that the most significant long-term social impact of the Zanaga Project will be its contribution to the economy of the Republic of Congo and thereby its positive effect on the country as a whole. The most immediate impacts will be on the communities in the vicinity of the targeted mine site areas and the proposed transport corridor. The project team has been committed to minimising any negative impacts that may occur as a result of its activities. The Environmental and Social Impact Assessment (ESIA) currently under way will be a guide to ensuring that this happens.

**Left**
**Air quality monitoring**

**Middle**
**Environmental studies along railway corridor**

**Right**
**Administration of polio vaccinations to labour force**

### ZIOC Approach

– Policy to actively engage with local communities at the initial stages of a project. Jumelles has done so since beginning exploration works in the Zanaga licence areas.

– Seek regular dialogue and implement formal grievance mechanisms to help deal with any issues that may arise over the course of work.

– Any resettlement of affected communities performed in accordance with local law and international best practice, drawing on the experience and guidance of ICMM and its member companies which would necessarily include full consultation with affected communities.

– Supports the UN Universal Declaration of Human Rights.

### 2010 progress

– A detailed baseline study of communities at the mine site has been completed, covering demographics, communication, land and resettlement, livelihoods, sacred site mapping, socio-economic development needs and community well being.

– Jumelles has appointed several community liaison officers, many of whom are from communities in the vicinity of the mine site, and a community relations manager to facilitate information sharing between the Zanaga Project team and local communities on a daily basis.

– A project has been initiated to rehabilitate a number of local schools and pay 50% of the salaries of voluntary teachers in villages where state teachers are not yet posted.

– 50+km of national road has been rehabilitated, improving transport access to what were very isolated villages.

– An HIV awareness and prevention programme has been developed with local government which has included presentations to many people within our workforce and the local community. A condom distribution system has also been designed and set up.

## Environment

### Background

The Zanaga Project, when completed, will comprise a large mine site and associated infrastructure such as housing, facilities to transport the iron ore and port facilities. The Zanaga Project's potential environmental impact will be extensive, but can be managed in a responsible and sensitive manner.

### ZIOC Approach

– Policy to integrate environmental considerations into project planning throughout every stage.

– Aim to minimise any negative environmental impacts and develop working practices that maximise energy efficiency and lead to cost savings.

– Ensure relevant authorities can make decisions with full knowledge of the facts.

– Ensure public understanding of project development and effect on the environment and the populations concerned.

### 2010 progress

– Plant biodiversity studies have been supervised by the Royal Botanic Gardens in Kew (London, UK) with assistance from local botanists and working closely with the Congolese National Herbarium. Baseline studies have identified about 900 plant species in the vicinity of the mine site.

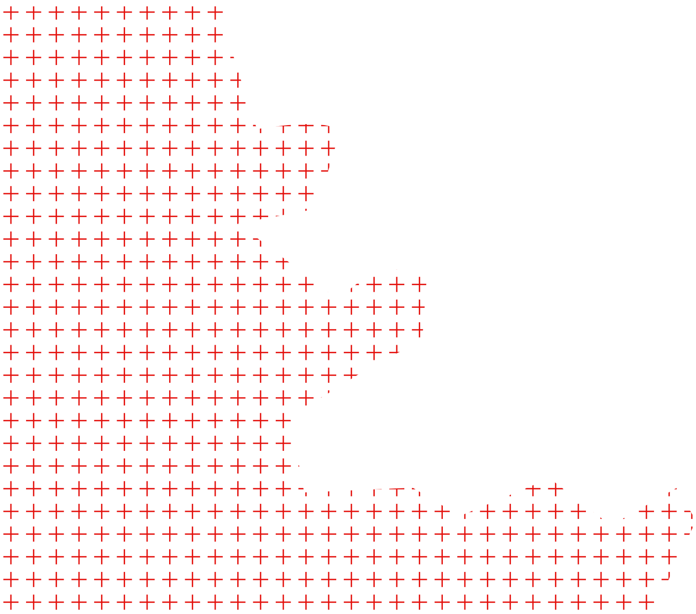
– Animal biodiversity studies have been guided by an independent international organisation with a long-term presence in the country. Studies have been conducted of animals in the vicinity of the mine site recording several internationally threatened species, amongst others. These studies continue to develop the plans to ensure minimum harm to fauna and identify ways in which a contribution can be made to conservation efforts.

– Two protected areas have been identified in the vicinity of the Zanaga Project: the proposed Ogooué-Lékéti National Park, about 20km from the mine site and the Dimonika Man and Biosphere Reserve, which have been taken into account in accessing rail transport routes.

– The proposed port site is an important nesting location for endangered Olive Ridley turtles. ZIOC and its stakeholders appreciate the importance of conservation concerning this important matter. The project team has been working with wildlife experts that specialise in turtle protection to ensure that appropriate mitigation measures are incorporated into the port design and operation.

– The Zanaga Project will require a significant supply of water for operation. Studies have been conducted of local water systems and rainfall conditions and are in the process of identifying a sustainable supply, taking into account the effects that the project's water needs will have on water availability in the area.

– The Zanaga Project mine site is on the divide between the Ogooué River and Niari River catchments. As the Ogooué River flows into Gabon, the design and placement of



**Above**
**School rehabilitation programme**

infrastructure has been carefully planned to ensure the impact on this catchment is minimised.

## Health & Safety

### Background

Malaria is the biggest public health challenge in the country and the environment is highly conducive to the transmission of the disease. The Zanaga Project workforce is, and will be, exposed to this and other prevalent health risks and responsibility is taken to minimise exposure and provide treatment to ensure employees and contractors are healthy, happy and productive.

The Zanaga Project's exploratory operations have, so far, involved limited safety risks. Employee and community health and safety in the project development and operation will be key criteria in the forthcoming FS. The Zanaga Project is now being managed by Xstrata, an ICMM member and leader in health and safety best practice.

### ZIOC Approach

– The health and safety of employees and contractors is of the highest priority. Operations are planned and managed to the highest international standards and the management team's years of experience is drawn upon to ensure that any risks are minimised.
– Minimise exposure to all health and safety risks and provide appropriate systems to ensure this.

### 2010 progress

– Two LTIs recorded in 2010, no fatalities.
– At the Zanaga exploration camp a dedicated on-site clinic continuously provides employees with basic medical treatment, vaccinations, rapid tests for epidemic cases such as TB and stabilisation of patients before emergency evacuation, should it be required.

## Employees

### Background

The Zanaga Project is in its early stages and currently directly employs a relatively small number of people, compared with the number of employment opportunities that it is estimated will ultimately be created.

Xstrata has now assumed management control of the Zanaga Project and will be responsible for employment practices going forward. ZIOC will apply the knowledge gained from operating the Zanaga Project up until this stage and the knowledge gained from working with Xstrata going forward on any future endeavours undertaken by ZIOC outside of the Zanaga Project.

### ZIOC Approach

– Employments on the basis of merit and oppositioned to discrimination in all forms.
– Aim to ensure safe and effective working relationships between all staff and contractors, taking into account differences in working practices and employee cultures.

### 2010 progress

– The Zanaga Project currently employs approximately 800 staff, as at 28 April 2011, of which c. 90% are Congolese nationals.
– As part of the commitment to the Republic of Congo priority to Congolese candidates has been given where they have equal experience and qualifications relative to a non-Congolese applicant for the same position.
– Around 300 Congolese nationals have been trained to work in drilling and sampling teams. It has been an aim to provide best practice levels of training and skills that will be useful in the long term. It is expected that many workers currently employed by the Zanaga Project will be retained and developed as the project progresses.
– The Zanaga Project supports the ILO Declaration on Fundamental Principles and Rights at Work.

## Business conduct

### Background

We believe that our approach to responsible business conduct has helped ensure the smooth running of the Zanaga Project whilst under our management control. As a publicly listed company we are accountable to a large number of stakeholders and our activities are scrutinised on an ongoing basis. Poor conduct in this area could damage our ability to conduct business. A reputation for good governance, honesty and reliability will help ensure future access to opportunities.

**Left**
**Open engagement with communities**

**Above**
**Supporting local education**

**Right**
**Water quality testing**

### ZIOC Approach

- Seek to comply with the requirements of local, national and international laws and industry practices and standards as pertains to our business.
- Opposed to bribery and corruption in all forms and seek to limit exposure to such risks by providing training and guidance to relevant employees and officers and adhering strictly to applicable anti bribery and corruption laws.
- Aim to operate in as transparent a manner as possible.

### 2010 progress

- Engaged in regular dialogue with all relevant government departments and officials including representatives of the Ministries of Mines and Geology, Finance, Transport, Energy and Sustainable Development and Forestry and the Environment amongst others.
- The Republic of Congo is a candidate country within the Extractive Industries Transparency Initiative (EITI) and Jumelles supports the principles behind it. The Zanaga Project's Internal Labour Policies and Procedures, Procurement and Purchasing Standards, Delegated Financial Authorities, Vehicle and Premises Use Policy and Procedures have been adapted to incorporate adequate corporate integrity, anti-corruption and gifts and benefits policies.

## Forthcoming work and long term

- Finalising the results of the Zanaga Project's PFS and embarking on the FS, to be funded and managed by Xstrata according to the terms of our agreement.
- Baseline studies for the proposed transport corridor and port site.
- Stakeholder engagement during the FS.
- ESIA in accordance with the terms of reference recently approved by the Congolese Ministry of the Environment.

## Conclusion of SRK Consulting, independent consultants to the Zanaga Project

SRK Consulting UK Ltd, an established international consultancy, have coordinated the Zanaga Project's PFS phase and assisted with the social and environmental elements of this process. The following conclusion was reached based on the PFS work completed to date:

*"The Zanaga Project is a large scale mining Project with potential to have significant positive socio-economic impacts. However, the social and environmental setting of the Zanaga Project presents challenges for the Project.*

*Based on the information collected to date, there does not appear to be any social or environmental impact that cannot be managed (either through project design or through measures implemented during construction, operation and closure) that would prevent the Project from proceeding."*

# Board of Directors

## Clifford Thomas Elphick

### Non-Executive Chairman

**50 years**

Clifford Elphick is the founder and CEO of Gem Diamonds Limited, a diamond mining company listed on the Main Market of the London Stock Exchange. Mr Elphick joined Anglo American Corporation in 1986 and was seconded to E Oppenheimer & Son as Harry Oppenheimer's Personal Assistant in 1988. In 1990 he was appointed Managing Director of E Oppenheimer & Son, a position he held until his departure from the company in December 2004. During that time, Mr Elphick was also a Director of Central Holdings, Anglo American and DB Investments. Following the buy-out of De Beers in 2000, Mr Elphick served on the De Beers executive committee until 2004. Mr. Elphick formed Gem Diamonds Limited in July 2005.

## Colin John Harris

### Non-Executive Director

**63 years**

Colin Harris has been working as an exploration geologist for over 40 years and has a wealth of experience in the generation, exploration and evaluation of projects covering a variety of commodities and deposit styles in over 25 countries mainly in Africa and Europe.
He has worked for major international mining companies including Anglo American, Cominco and more recently Rio Tinto. During his 18 years at Rio Tinto Mr Harris managed multi-million dollar programmes which in the past 15 years included the evaluation of iron ore deposits in Greenland, Scandinavia, Mali, Mauritania, Algeria, Morocco, Liberia, Senegal, Sierra Leone etc and more importantly between 1998 and 2008 heading up the team evaluating the world class Simandou iron ore project in the Republic of Guinea. Mr Harris resigned from Rio Tinto in 2008 and joined the Zanaga team later in the year as Project Director. Mr Harris stepped down as Project Director of the Zanaga Project after the exercise of the Xstrata Call Option (see page 27 for further details). Mr Harris is also a Non-Executive Director of AIM listed Ncondezi Coal Company Limited and AIM and Oslo AXESS listed London Mining plc.

## Clinton James Dines

### Non-Executive Director

**52 years**

Clinton Dines has been involved in business in China since 1980, including senior positions with the Jardine Matheson Group, Santa Fe Transport Group and Asia Securities Venture Capital.
In 1988 he joined BHP as their senior executive in China and, following the merger of BHP and Billiton in 2001, he became President, BHP Billiton China, a position from which he retired in 2009. Mr Dines is currently a non-executive director of Kazakhmys plc, which is listed on the Main Market of the London Stock Exchange.

## Michael John Haworth
## Non-Executive Director
**44 years**

Michael Haworth is a director of Strata Limited, Garbet Limited and is the Managing Partner of Strata Capital UK LLP. Mr Haworth has 12 years investment banking experience, predominantly in emerging markets and natural resources. Prior to establishing Strata Limited in 2006, Mr Haworth was a Managing Director at J.P. Morgan and Head of Mining and Metals Corporate Finance in London. During his 10 years at J.P. Morgan, Mr Haworth held a number of other positions, including Head of M&A for Central Eastern Europe, Middle East and Africa and, before that, Head of M&A in South Africa.

## Dave John Elzas
## Non-Executive Director
**44 years**

Dave Elzas has over 15 years' experience in international investment banking. Between 1994 and 2000, Mr Elzas served as a senior executive and subsequently Managing Director of the Beny Steinmetz Group. Mr Elzas is currently the Senior Partner and CEO of the Geneva Management Group, an international wealth management and financial services company. Mr Elzas has been a non-executive director of Gem Diamonds Limited since October 2005.

# Directors' report

The Directors whose names appear on pages 22 and 23 were members of the Board at the time of approving the Directors' Report and hereby present their 2010 Annual Report to the shareholders of Zanaga Iron Ore Company Limited ( the "Company"), together with the full financial statements for the year ended 31 December 2010.

## Status and Activities

The Company is a British Virgin Islands ("BVI") Business Company registered under the Territory of the British Virgin Islands, BVI Business Companies Act, 2004 ("Act").

The Company was incorporated on 19 November 2009 with the name Jumelles Holdings Limited. On 1 October 2010, the Company changed its name to Zanaga Iron Ore Company Limited.

On 18 November 2010, the Company's share capital was admitted ("Admission") to trading on the AIM Market ("AIM") of the London Stock Exchange ("LSE"). Proceeds of US$100 million (UK£62.1 million) were raised through the placing of 39,815,258 ordinary shares at 156 pence each ("Placing"). The Placing comprised the primary placing and issue of 19,907,629 new shares and the secondary placing and sale of 19,907,629 sale shares by the certain then existing shareholders. The Company therefore received gross proceeds of $50 million and selling shareholders received gross proceeds of $50 million.

At Admission and during the 2010 financial year the Company held 100% of the Zanaga Project through Jumelles Limited ("Jumelles") which in turn owns 100% of the Zanaga Project subject to the minimum 10% free carried interest of the Government of the Republic of the Congo.

Following the exercise by Xstrata of its First Call Option (as defined below) the Company retains a 50% less one (1) share interest in the Zanaga Project through Jumelles ("Minority Stake").

The Company's long-term objective is to maximise the value of the Company's sole asset – its Minority Stake in Jumelles – and the Zanaga Iron Ore Project which is currently focused on managing, developing and constructing a world class iron ore asset capable of mining, processing, transporting and exporting iron ore at full production.

## Post Balance Sheet Events

### Xstrata's Exercise of its First Call Option and Triggering of the Joint Venture Agreement ("JVA")

Following the exercise in February 2011 by Xstrata of its call option ("First Call Option") Xstrata acquired a 50% plus one share majority stake interest in Jumelles thereby acquiring management and shareholder control of the Zanaga Project. As a result the JVA between the Company and Xstrata has become fully effective. Under the JVA Xstrata will be required to fund the costs associated with completing the Feasibility Study ("FS") in accordance with Xstrata's internal guidelines and internationally accepted industry standards and will have the further right to call for and acquire all (and not part) of the Company's remaining 50% less one share minority stake in Jumelles following completion of the FS ("Second Call Option"), in accordance with the provisions of the JVA.

For further information on the Company, its group structure and details of the background to the First Call Option, Second Call Option and provisions of the JVA please see the Notes to the Financial Statements at pages 39 to 49 of this Annual Report.

### PFS & Value Engineering Exercise ("VEE")

A VEE including scope and options review commenced on March 2011 in respect of the Zanaga Project. A team of internal and external experts has been assembled to cover all elements of the Zanaga Project scope. The initial workshops have generated and prioritised specific ideas and opportunities with strong potential to impact positively on Zanaga Project NPV, either through added value or reduced risk.

It is expected that both the combined PFS Phase II results and VEE results will be published in Q3 2011.

## Activities and Business Review

The Company's performance, activities during the year and future prospects are discussed in the Company Profile, Chairman's Statement and in the Business Review as set out on pages 1 to 15.

## The Financial Risk Profile

The Company's financial instruments comprise cash and various items such as debtors and creditors that arise directly from the Company's operations.

The main risks that the Company faces are summarised on pages 13 to 15 of the Business Review. Further details are given in Note 13 to the Financial Statements.

The risks and uncertainties facing the Company are regularly reviewed by the Board and Management.

## Dividends

No dividends were declared or paid during the year under review (2009: $Nil).

## Going Concern

Following exercise of the Xstrata Call Option, Xstrata is required to fund and implement the FS in accordance with the joint venture agreement. Xstrata has undertaken to use its reasonable endeavours to complete the FS at least three months prior to the expiration of the Zanaga Exploration License in May 2014, assuming renewal of the Zanaga Exploration Licences in May 2012, and subject to there being no adverse change. The cost of the Company's personnel and the technical experts appointed to oversee the project are the only expenditures currently envisaged during the period of the FS work programme and the Company has significant cash resources available. In the circumstances, the Directors have a reasonable expectation that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For these reasons, the financial statements of the Company have been prepared on a going concern basis.

## Directors

The current members of the Board are Clifford Elphick, Michael Haworth and Dave Elzas, who served as Directors throughout 2010, and Colin Harris and Clinton Dines who were appointed to the Board shortly prior to the Company's Admission to AIM in November 2010.

Biographical details of the Directors and the period of each directorship are shown on pages 22 and 23.

Details of Board meetings and Directors' attendance at Board meetings are laid out on page 27 and 28.

The Directors' interests in the ordinary shares of the Company as at 31 December 2010 and the date of signing this Annual Report are set out on pages 30 and 31 of the Remuneration Report.

### Directors Remuneration
A Directors' Remuneration Report, which shareholders will be asked to approve at the Annual General Meeting, can be found on pages 30 to 33.

### Company Secretary
Elysium Fund Management Limited is responsible for the provision of company secretarial and related administrative services.

### Indemnities and Insurance
The Company maintains Directors' and officers' liability insurance cover, to cover claims made against Directors and officers of the Company, arising out of actions taken in relation to the Company's business and its Admission.

### Corporate Governance
Following the Company's Admission to AIM in November 2010, the Directors have taken measures to comply with the Financial Reporting Council's Combined Code on Corporate Governance so far as is appropriate and practical having regard to the size and nature of the Company. A report on Corporate Governance can be found on pages 27 to 29.

### Corporate and Social Responsibility
The Company places the highest priority on the health and safety of its employees, respect for the environment and active engagement with the local communities in which it operates. A report on corporate and social responsibility can be found on pages 18 to 21.

### Substantial Share Interests
As at 28 April 2011, the following interests of 3% or more of the issued ordinary share capital had been notified to the Company:

| Funds managed by: | Number of shares | % of share capital |
|---|---|---|
| Garbet Limited[1] | 115,671,186 | 41.25% |
| Gauva Minerals Limited[2] | 88,730,397 | 31.64% |
| BlackRock Investment Management UK Limited[3] | 23,482,621 | 8.37% |
| F & C Asset Management Plc | 15,346,236 | 5.47% |

1. Michael Haworth is indirectly interested in these ordinary shares, which are registered in the name of Garbet, by virtue of his interest as a potential beneficiary in two discretionary trusts which have an indirect interest in these ordinary shares.
2. Clifford Elphick is indirectly interested in these ordinary shares by virtue of his interest as a potential beneficiary in a discretionary trust, which has an indirect interest in these ordinary shares.
3. BlackRock Investment Management UK Limited holds its ordinary shares through Nutraco Nominees Limited, Security Services Nominees and Chertwynd Nominees Limited.

### Policy on Payment to Suppliers
Amounts due to suppliers and service providers are settled promptly within the terms of the payment, except in cases of dispute.

### Material Contracts
The Company's material contracts are with Xstrata (see note 1 of the Financial Statements on pages 39 and 40 for more details), Liberum Capital Limited, which acts as Nominated Adviser and Broker, Computershare Investor Services (BVI) Limited, which acts as Registrar and Hyposwiss Private Bank Genève SA, the Company's banker.

### Legal Proceedings
The Company is not engaged in any litigation or claim of material importance, nor, so far as the Directors are aware, is any litigation or claim of material importance pending or threatened against the Company.

### Independent Auditors
The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution re-appointing them and authorising the Directors to fix their remuneration will be submitted at the forthcoming Annual General Meeting.

### Disclosure of Information to Auditors
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Responsibility statement of the Directors in respect of the annual financial report
We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

**Mr Clifford Elphick**
Non-Executive Director & Chairman

**Mr Michael Haworth**
Non-Executive Director

Coastal Building, 2nd Floor
Wickham's Cay II
P.O. Box 2221
Road Town, Tortola
British Virgin Islands
24 May 2011

# Statement of Directors' responsibilities

The Directors of Zanaga Iron Ore Company Limited ('the Directors') are responsible for preparing the financial statements for the year ended 31 December 2010 in accordance with the AIM Rules for Companies. Under those rules they are required to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Under AIM rules the Directors must not approve the financial statements unless they are satisfied that they give a true an fair view of the state of affairs of the company and of its profit or loss for that period.

In preparing these financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepared the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable regulations, the Directors are also responsible for preparing a Directors' Remuneration Report.

# Corporate governance report

The Directors recognise the importance of sound corporate governance and the guidelines set out in the Financial Reporting Council's Combined Code on Corporate Governance (the "Code"). Whilst AIM listed companies are not obliged to comply with the Code, following the Company's Admission to AIM in November 2010 the Directors have taken measures to comply with the Code so far as is appropriate and practical having regard to the size and nature of the Company.

## Board of Directors

As at 31 December 2010, the Board was led by a Non-Executive Chairman, Clifford Elphick. The Board consisted of five (5) Directors at year end, four (4) of whom were Non-Executive Directors at the time of the Company's Admission on 18 November 2010. Two of the Directors, Colin Harris and Clinton Dines, were appointed to the Board shortly prior to the Company's Admission to AIM. The remaining three (3) held office for the duration of the year. Further details of the Directors and length of directorships are included in the table below.

| Name | Nationality | Age | Position | Date of Appointment |
|---|---|---|---|---|
| Clifford Thomas Elphick | South African | 50 | Non-Executive Chairman | 26 November 2009 |
| Michael John Haworth | British | 44 | Non-Executive Director | 26 November 2009 |
| Dave John Elzas | Dutch | 44 | Non-Executive Director | 19 November 2009 |
| Colin John Harris* | British | 63 | Non-Executive Director* | 12 November 2010 |
| Clinton James Dines | Australian | 52 | Non-Executive Director | 12 November 2010 |

* Following exercise by Xstrata of its First Call Option in February 2011 and taking management control of the Zanaga Project, Mr Harris no longer serves as an Executive Director for the Zanaga Project or the Company. For the duration of the 2010 financial year Mr Harris, however, served as Executive Director to the Company and the Zanaga Project. Mr Harris now serves as a Non-Executive Director for ZIOC.

The Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new appointment of a Director to the Board, consideration will be given as to whether a formal induction process is appropriate. The Board believes that the mix of skills, experience, ages and length of service are appropriate to the requirements of the Company.

The biographical profiles of the Directors, which demonstrate their skills and experience, can be found on pages 22 and 23.

Under the Code, none of the four Non-Executive Directors that served during the 2010 financial year would be viewed as independent. However, the Directors believe that independence is not a state of mind that can be measured objectively and, given the character, judgement and decision making process of the individuals concerned, the Directors believe that Clinton Dines and Dave Elzas can be considered independent. Clinton Dines and Dave Elzas (and for that matter Colin Harris) would not be viewed as independent under the Code by virtue of the shares awarded to them under the Company's long-term share incentive scheme and, in the case of Dave Elzas, by virtue of him being on the board of directors of GEM Diamonds Limited with Clifford Elphick.

The Company will review the independence of the Directors annually and all new appointments will be made after consideration of the independence of the Company's Directors.

## Election of Directors

As per the Company's Articles of Association, all Directors are subject to election by shareholders at the first Annual General Meeting ("AGM") following their appointment. Thereafter, at each AGM one-third of the Directors for the time being shall retire from office by rotation. A retiring Director shall be eligible for re-election. In addition, any Director who would not otherwise be required to retire shall retire by rotation at the third AGM after his last appointment or reappointment.

Accordingly, all Directors will stand for election at the 2011 AGM as this is the first AGM following their appointment.

## Attendance at Board Meetings

The Company holds at least four Board Meetings per year, at which the Directors review the exploration and development progress of the Zanaga Project and all other important issues to ensure control is maintained over the Company's affairs. In addition, between these formal meetings there is regular contact with the Company's consultants, management and the Nominated Adviser and Broker (details of which can be found in the Administration section on page 50). The Directors are kept fully informed of investment, financial and other matters that are relevant to the business of the Company and that should be brought to the attention of the Directors. The Directors also have access to the Company Secretary and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

The Board considers agenda items laid out in the notice and agenda, which are formally circulated to the Board in advance of a Meeting as part of the Board papers and, therefore, Directors may request any agenda items to be added that they consider appropriate for Board discussion. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

The quorum for a Board Meeting is two but attendance by all Directors at each Meeting is strongly encouraged. Whilst Directors try to arrange their schedules accordingly, non-attendance is unavoidable in certain circumstances. During the year under review, eight regular Meetings were held and one additional telephone Meeting was held. The table below details the number of Board Meetings attended by each Director.

| | Total | Board meetings | Committee meetings |
|---|---|---|---|
| Clifford Thomas Elphick | 9/9 | 8/8 | 1/1 |
| Michael John Haworth | 9/9 | 8/8 | 1/1 |
| Dave John Elzas | 8/9 | 7/8 | 1/1 |
| Colin John Harris* | 2/2 | 2/2 | – |
| Clinton James Dines* | 2/2 | 2/2 | – |

* Colin Harris and Clinton Dines were appointed to the Board on 8 November 2010.

Apart from the regular Board meetings, additional meetings will be arranged when necessary to review strategy, planning, operational, financial performance, risk, capital expenditure, human resource and environmental management.

## Directors' shareholdings

The interests of the Directors in the share capital of the Company are disclosed in the Directors' Remuneration Report on page 31.

## Directors' shareholdings and dealings

The Directors comply with Rule 21 of the AIM Rules for Companies relating to Directors' dealings and take all reasonable steps to ensure compliance by the Company's applicable employees. The Company has adopted and operates a share dealing code for Directors and employees in accordance with the AIM Rules for this purpose.

## Board committees

With effect from the Company's Admission to AIM on 18 November 2010, the Directors have established an audit committee, a remuneration committee and a health, safety, social and environment committee with formally delegated duties and responsibilities. At this stage of the Company's development the Directors consider it is appropriate for the Board to retain responsibility for nominations to the Board. The Board is also responsible for monitoring the activities of the executive management.

## The Audit Committee

The audit committee of the Company ("Audit Committee") was established at Admission in November 2010 and operates within written terms of reference clearly setting out its authority and duties. The Audit Committee's terms of reference, which cover all matters recommended under the Code, are available on the Company's website, www.zanagairon.com.

The Audit Committee, which comprises Dave Elzas (as Chairman) and Michael Haworth, determines and examines any matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. In addition it considers the financial performance, position and prospects of the Company and ensures they are properly monitored and reported on.

Both members of the Audit Committee are Non-Executive Directors and both have recent and relevant financial experience. As detailed above, neither of these Directors would be considered independent under the Code. However, the Directors believe that independence is not a state of mind that can be measured objectively and, given the character, judgement and decision making process of the individuals concerned, the Board believes that Dave Elzas can be considered independent. The Board will review this annually.

Future members of the Audit Committee are appointed by the Board in consultation with the Chairman of the Audit Committee. The quorum necessary for the transaction of business shall be two (2) members. However, other individuals such as the Chairman of the Board, Chief Executive, Finance Director, other Directors, the heads of risk and compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate. The external auditors will be invited to attend meetings of the Audit Committee on a regular basis.

Since the establishment of the Audit Committee in November 2010, no meetings were held in the year to 31 December 2010. The first meeting of the Committee was held in March 2011 for the purpose of reviewing its terms of reference, considering its risk management framework, considering the independence of the auditors and reviewing the 2010 external audit.

The Audit Committee will, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Fees paid to members of the Audit Committee for the year ended 31 December 2010 are set out in the Remuneration Report on page 33.

The Chairman of the Audit Committee shall attend the AGM prepared to respond to any shareholder questions on the Audit Committee's activities.

Given the current size and nature of ZIOC staff may raise concerns surrounding possible improprieties in matters of financial reports, in confidence with the Chairman, and the Directors do not feel it appropriate at this stage to put in place a detailed procedure by which staff may, in confidence, raise concerns surrounding possible improprieties in matters of financial reporting. The Directors will keep this under review should employee numbers increase significantly.

The Directors will in due course monitor and review those measures which have or will be put in place by Xstrata at the Zanaga Project.

## Financial reporting

It is the Audit Committee's responsibility to monitor the integrity of the financial statements of the Company, including its annual and half yearly reports, interim management statements, preliminary results' announcements and any other formal announcement relating to its financial performance.

## External auditors

The Audit Committee is responsible for managing the relationship with the Company's external auditors, including approval of their remuneration and terms of engagement. The Audit Committee shall make recommendations regarding the appointment, re-appointment and removal of the Company's external auditor, having regard to their assessment of the auditor's independence and performance. KPMG Audit Plc has been the Company's auditors since incorporation.

The Audit Committee met in March 2011 to discuss these issues and is satisfied with the independence and effectiveness of the auditors and does not at this stage consider it is necessary to require an independent tender process. The Audit Committee will keep this under ongoing review.

The Audit Committee meet with the Company's auditors in May 2011. The Audit Committee will also have direct access to the auditors as necessary at other times and the opportunity to meet the auditors without management being present.

The auditors are permitted to provide non-audit services that are not in conflict with auditor independence and objectivity. The Audit Committee is responsible for ensuring that any non-audit services do not jeopardise this independence and objectivity and given the size and stage of development of the Company do this on a case by case basis.

Fees paid to the external auditor, KPMG Audit Plc, for audit services during the period were $39,000.

During the reporting period the external auditors provided various non-audit services in connection with the Company's Admission to AIM in November 2010. Fees paid to the auditor for non-audit services were $300,000 during the year (2009: $nil) and were charged to equity as share issue costs.

Prior to its Admission, the Company was a privately held company and the Audit Committee was only appointed with effect from Admission. For the audit of the Company's financial statements for the year ended 31 December 2010, the Audit Committee considered whether it was appropriate for KPMG Audit Plc to carry out the audit given the non-audit services provided in respect of the Company's Admission in the course of 2010. In this regard the Audit Committee has concluded that KPMG Audit Plc was the most appropriate supplier of these services due to its efficiency and its status as a leading firm for the specific services being requested and that it was market practice for these services to be provided by the auditors. Accordingly the Audit Committee concluded that KPMG Audit Plc's independence and objectivity had not been impaired.

**Internal control and risk management**

The Directors have overall responsibility for establishing and maintaining the Company's system of internal control and risk management systems. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal controls are as follows:

- Elysium Fund Management Limited is responsible for the provision of company secretarial and administration duties. The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts;
- The Board reviews financial information produced by the administrator on a regular basis; and
- The Board monitors the performance of the Company's service providers and their obligations under their agreements with the Company.

Up until Xstrata's exercise of its First Call Option the Board has ensured that appropriate internal controls and systems were in place for its investment in its associate, Jumelles, through reviewing risks, delegating financial authorities, employing staff with relevant experience, segregating duties and outsourcing the accounting service.

The Company does not have an internal audit department. Due to the size and nature of the Company it is not felt that there is at this stage a need for the Company to have an internal audit facility. The Audit Committee will keep this under ongoing review.

The Directors do not currently conduct a formal annual review of the internal controls. However, the Board feels that the procedures employed by the service providers adequately mitigate the risks to which the Company is exposed. Following the establishment of the Audit Committee and in accordance with the Code, the Directors are in the process of establishing an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and will review the effectiveness of the internal control system each year. Going forward the Audit Committee will conduct a formal risk assessment on an annual basis and will also report by exception on any material changes during the year.

A summary of the principal risks facing the Company can be found in the Business Review on pages 13 to 15.

**Remuneration Committee**

The composition, activities and role of the Remuneration Committee is set out in more detail in the Remuneration Report on pages 30 to 33.

The Remuneration Committee terms of reference can be found on the Company's website at www.zanagairon.com.

**Health, Safety, Social and Environment Committee**

On the Company's Admission to AIM on 18 November 2010, the Directors established a Health, Safety, Social and Environment Committee ("HSSE Committee"), with formally delegated duties and responsibilities for such purpose. The HSSE Committee, which comprises Clinton Dines (as Chairman), Colin Harris and Clifford Elphick, is responsible for the formulation and recommendation to the Board of a policy on health, safety, social and environmental issues related to the Company's operations.

The HSSE Committee met for the first time on 31 March 2011 to consider these issues.

Following the exercise of the option to acquire control of the Zanaga Project by Xstrata, the Company does not control the Zanaga Project and has no other operations. Whilst it was proposed that the committee will meet at least four times a year, the Board has resolved that the HSSE Committee be adjourned until such time as the Company has control of operations.

All Zanaga Project HSSE reports will now be presented directly to the Board and if any material concerns are raised at Board level the HSSE Committee may be requested to reconvene.

The HSSE terms of reference can be found on the Company's website at www.zanagairon.com.

**Relationships with shareholders**

The Code encourages dialogue with institutional shareholders based on the mutual understanding of objectives. The Directors are always available to enter into dialogue with shareholders. All ordinary shareholders will have the opportunity, and indeed are encouraged, to attend and vote at the Annual General Meeting during which the members of the Board, Nominated Adviser and Broker will be available to discuss issues affecting the Company. The Board stays abreast of shareholders' views via regular updates from the Nominated Adviser and Broker as to meetings it may have held with shareholders.

# Remuneration report

This report to shareholders for the year ended 31 December 2010 sets out the policies under which Executive and Non-Executive Directors are remunerated.

As regulated by the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations") and the UK Listing Authority Rules, this report will be subject to an advisory shareholder vote at the AGM. The report is intended to be in full compliance with the requirements of the Regulations and the Combined Code.

Certain sections of this report are subject to audit and these have been clearly marked. The unaudited section of the report deals with the remuneration policy that is to be followed in 2011 and a description of the arrangements that applied during 2010.

## Remuneration Committee

The Remuneration Committee was established on the Company's Admission to AIM on 18 November 2010 and is comprised of Dave Elzas (as Chairman), Clifford Elphick and Michael Haworth. The Remuneration Committee review the performance of and set his remuneration, determine the payment of bonuses to the Executive Director and consider the Company's bonus and option schemes.

The Remuneration Committee met for the first time on 31 March 2011 to consider these issues.

The Company Secretary, Elysium Fund Management Limited, act as secretary to the Remuneration Committee.

The Remuneration Committee meet at least twice a year.

Other individuals such as the Chief Executive and external advisors may be invited to attend all or part of any meeting as and when appropriate.

The terms of reference for the Remuneration Committee can be found on the Company's website at www.zanagairon.com.

The Remuneration Committee's key objectives are to:

- ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;
- review the ongoing appropriateness and relevance of the remuneration policy; and
- approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes.

The Remuneration Committee's main responsibilities are to:

- determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chief Executive, Chairman of the Board, the Executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider. The remuneration of Non-Executive Directors shall be a matter for the chairman of the Board and the executive members of the Board. No Director or manager shall be involved in any decisions as to their own remuneration;
- approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes; and
- review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors and other senior executives and the performance targets to be used.

## Remuneration policy

The Board, as a whole, establishes the remuneration policy. The Remuneration Committee assists the Board in carrying out its responsibilities in relation to remuneration. In determining the policy for the Executive Director, the Remuneration Committee's objective is to ensure that individuals are provided with appropriate incentives (on a market competitive basis) for enhanced performance and are, in a fair and reasonable manner, having regards to the performance of the Company, rewarded for their individual contributions to the success of the Company.

## Advice

During the year the Company received legal services from its solicitors, who were responsible for preparing the agreements for the Executive and Non-Executive Directors.

## Service contracts and notice periods

The Board consisted of five Directors at year end, four of whom were Non-Executive Directors. Two of the Directors, Colin Harris and Clinton Dines, were appointed to the Board on the Company's admission to AIM on 18 November 2010. The remaining three held office for the duration of the year. Further details of the Directors and length of directorships are reflected in the table set out on page 27 above of the Corporate Governance section of this Report.

Prior to Admission to AIM, no service agreements were in existence between any Director and the Company.

All Directors entered into an agreement with the Company to act as either Executive or Non-Executive Directors on 12 November 2010 with effect from Admission on the 18 November 2010.

Clifford Elphick's appointment as Chairman is for a minimum period of one year subject to three months' notice by either party at any time and also subject to the Articles.

All the other Directors are appointed for an indefinite period subject also to three months' notice by either party at any time and also subject to the Articles.

The service contracts for the Executive Director and Non-Executive Directors are available for inspection by members during normal business hours, at the Company's registered office.

## Executive Director remuneration package

The Directors shall be paid by way of fees for their services a sum not exceeding an aggregate of £500,000 per annum or such larger amount as the Company may by resolution of Directors determine.

The annual remuneration package, in Sterling, of Colin Harris, for the period he served as Executive Director, until Xstrata's exercise of its First call option, is detailed below:

| Executive director | Annual Fee £'000 | Annual Fee HSSE Committee £'000 | Total Annual Fee £'000 |
|---|---|---|---|
| Colin Harris | 50 | 4 | 54 |

Colin Harris also received a cash bonus of US$250,000 on admission to AIM in November 2010 and was awarded shares as part of the long-term incentive scheme as detailed below. Save from these awards and admission bonus, he is not entitled to any other bonus, pension or other benefits and has agreed that, in the event of termination of his appointment, howsoever caused, he will not be entitled to any compensation for loss of office as Director of the Company.

The emoluments paid to Colin Harris for the year ended 31 December 2010 are detailed in the table below 'Remuneration for the year to 31 December 2010'.

## Non-Executive Directors' remuneration package

The annual remuneration package, in Sterling, of the Non-Executive Directors is detailed below:

| Non-Executive Director | Annual Fee £'000 | Annual Fee Audit Committee £'000 | Annual Fee HSSE Committee £'000 | Annual Fee Remuneration Committee £'000 | Total Annual Fee £'000 |
|---|---|---|---|---|---|
| Clifford Elphick* | 75.0 | - | 4.0 | 4.0 | 83.0 |
| Clinton Dines** | 50.0 | - | 7.5 | - | 57.5 |
| Michael Haworth | 50.0 | 5.0 | - | 4.0 | 59.0 |
| Dave Elzas*** | 50.0 | 10.0 | - | 7.5 | 67.5 |

* Chairman of Board of Directors.
** Chairman of HSSE Committee.
*** Chairman of Audit Committee and Remuneration Committee.

No Director is entitled to any bonus, pension or other benefits (save as disclosed above or in relation to awards made on admission to AIM under the long-term incentive scheme as set out below). In the event of termination of appointment, howsoever caused, each Director has agreed that they will not be entitled to any compensation for loss of office as a Director of the Company.

## Directors' shareholdings

The interests of the Directors in the share capital of the Company, all of which are beneficial unless otherwise stated, are as follows:

| | Post Share Award Vesting 2011 | | 31 December 2010 | | Prior to Admission on 18 November 2010 | |
|---|---|---|---|---|---|---|
| Directors | No. Of Shares | % | No. Of Shares | % | No. Of Shares | % |
| Clifford Elphick* | 88,730,397 | 31.64 | 88,730,397 | 31.64 | 98,684,212 | 38.71 |
| Michael Haworth** | 115,671,186 | 41.25 | 115,671,186 | 41.25 | 125,625,000 | 49.28 |
| Dave Elzas | 199,076 | 0.07 | - | - | - | - |
| Colin Harris | 2,388,915 | 0.85 | - | - | - | - |
| Clinton Dines | 398,153 | 0.14 | - | - | - | - |

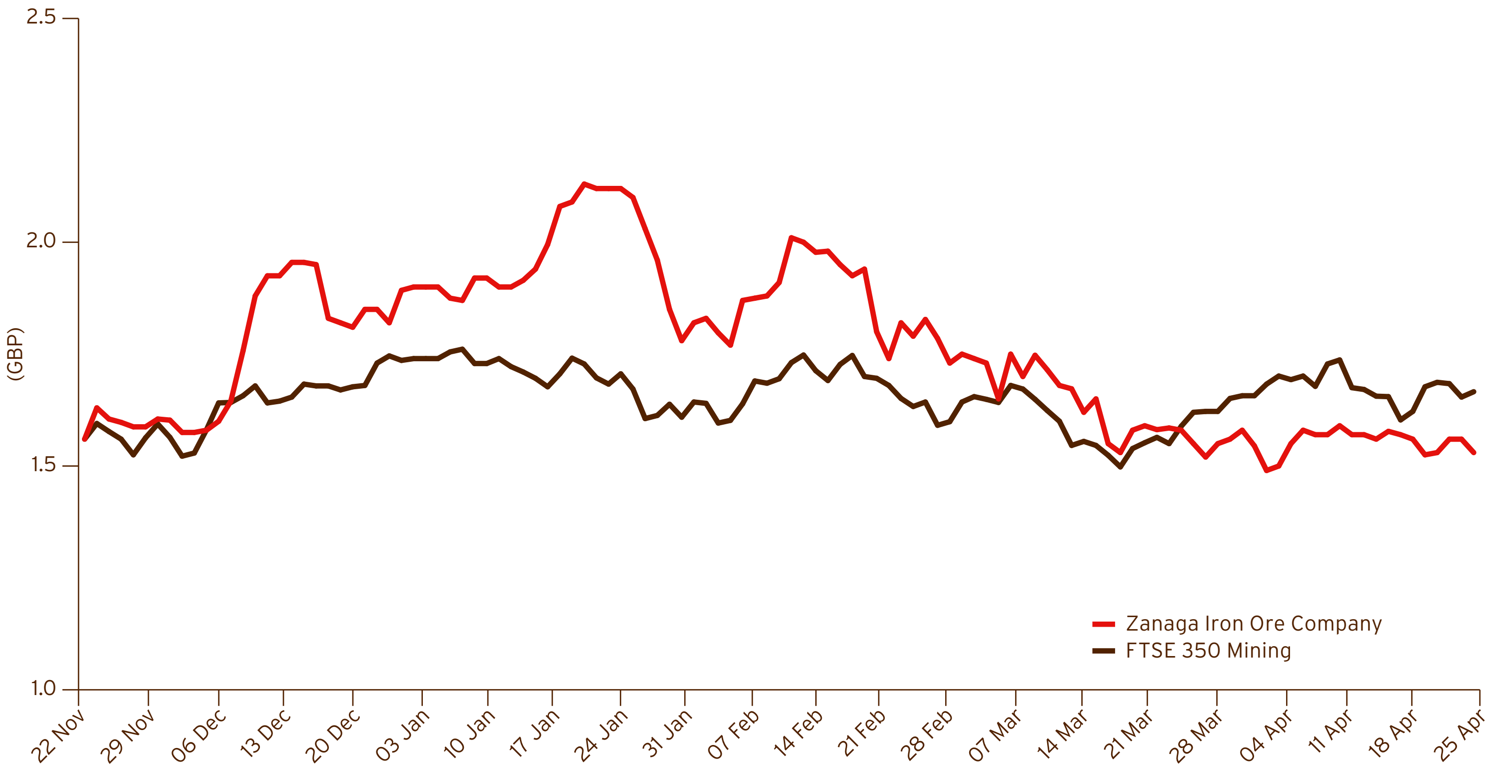
% of issued share capital
* Clifford Elphick is indirectly interested in these ordinary shares, which are registered in the name of Guava Minerals Limited, by virtue of his interest as a potential beneficiary in a discretionary trust which has an indirect interest in those ordinary shares.
** Michael Haworth is indirectly interested in these ordinary shares, which are registered in the name of Garbet Limited, by virtue of his interest as a potential beneficiary in a discretionary trust which has an indirect interest in those ordinary shares.

There have been no changes in the Directors' interest in shares between 31 December 2010 and 24 May 2011.

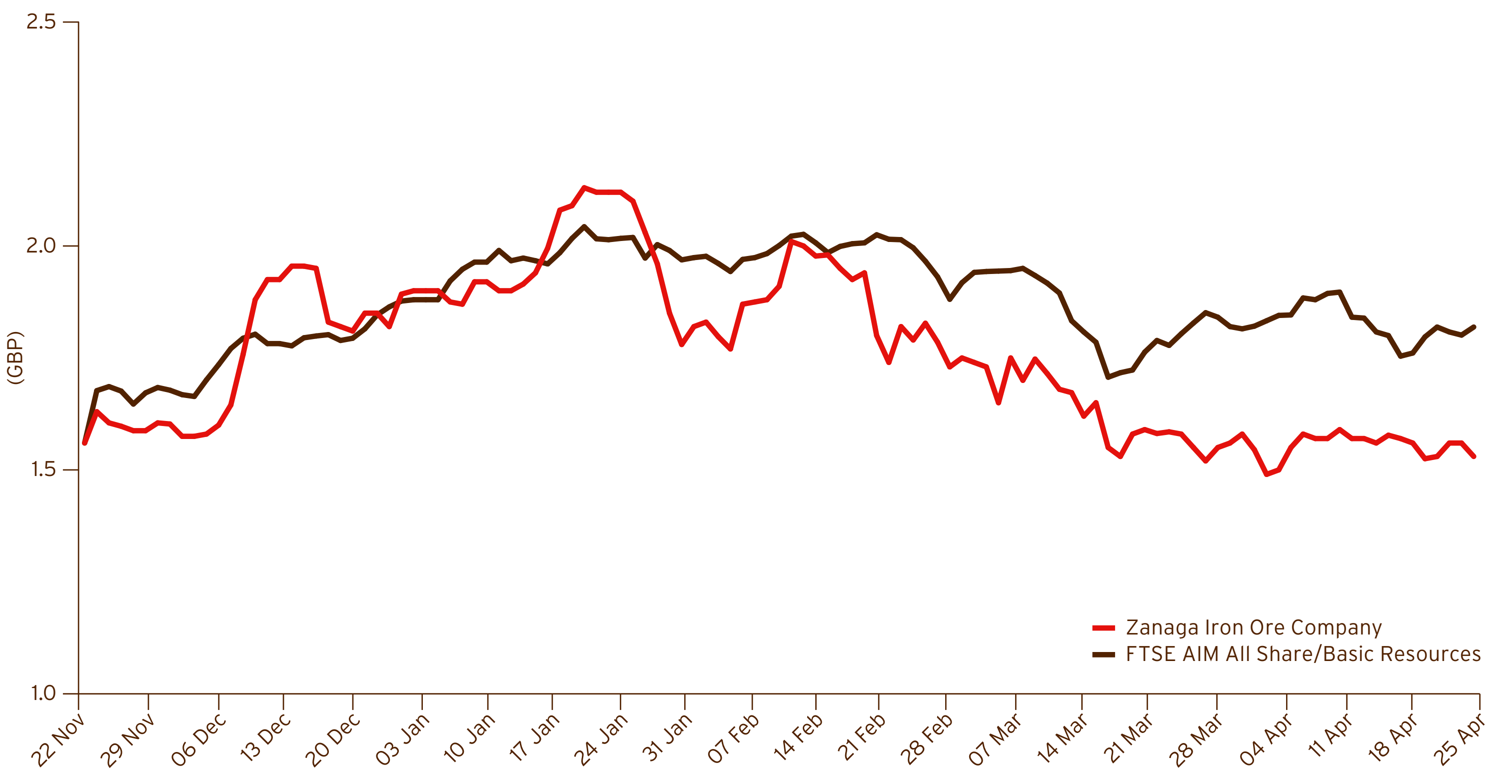
Each of the Directors has undertaken to the Company that, save in specific circumstances, they will not dispose of any interest in ordinary shares held by each of them for a period of twelve months (12) from the date of Admission to AIM.

**Share price performance graph**

Zanaga Iron Ore Co. Ltd. versus FTSE 350 Mining (re-based to ZIOC share price)




Zanaga Iron Ore Co. Ltd. versus FTSE AIM All Share/Basic Resources (re-based to ZIOC share price)



## Audited Information

### Remuneration for the year to 31 December 2010

The emoluments for the Directors for the year to 31 December 2010 can be found below. Note that whilst some of the Directors held office for the full 12 months, no Director was entitled to any fee prior to the Company's Admissions to AIM on 18 November 2010.

| Director | Director fee £'000 | Cash bonus on admission £'000 | **Total emoluments 2010 £'000** | Total emoluments 2009 £'000 |
|---|---|---|---|---|
| Colin Harris[1] | 6.5 | 161.8 | **168.3** | - |
| Clifford Elphick | 9.9 | - | **9.9** | - |
| Clinton Dines | 6.9 | - | **6.9** | - |
| Michael Haworth | 7.0 | - | **7.0** | - |
| Dave Elzas | 8.1 | - | **8.1** | - |
| **Total in £** | 38.4 | 161.8 | **200.2** | |
| | $'000 | $'000 | **$'000** | |
| **Total in $[2]** | 59.3 | 250.0 | **309.3** | - |

1 Colin Harris was also paid a total of £434,000 ($671,000) through Jumelles Technical Services (UK) Limited for services carried out as employee of that company in his capacity as TSA Project Leader.
2 Converted at 12 month average rate of $1.545:£1.

### Long-term incentive plan

At its Admission the Company approved and implemented a long-term incentive plan ("LTIP") in order to recruit and retain key officers and employees of the Company and the Company's associate. The LTIP structure operates through two discretionary trusts ("Trusts") established for the benefit of current and former employees and officeholders. The trustee of the Trusts is Geneva Management Group (BVI) Limited. The Trusts acquire, as and when required, shares in the Company for the purposes of rendering share awards under the LTIP.

For all key management personnel, the LTIP is structured as a split interest scheme. On the date of the award, the employee and the employee Trust enter into an agreement to acquire shares as joint owners with the employee's proportion of ownership of each share being; 0.001% of the total value up to a given hurdle and 99.999% of the total value above the hurdle. The hurdle is determined by the Remuneration Committee. The employee will pay the market value for his joint ownership of the shares. If the vesting conditions are not met, the employee forfeits joint ownership of the shares. If the award meets the vesting conditions, the employee has the right to exercise the option and become the sole owner of the shares.

For a more detailed summary of the Company's LTIP please see Part X of the Company's Admission Document.

The following awards were made to Directors of the Company on 18 November 2010:

| Director | Number of shares | Exercise price | **Market price at 31 December 2010** | Highest and lowest market price in year | Expiry date | Vesting criteria |
|---|---|---|---|---|---|---|
| Colin Harris | 1,990,763 | £0.0234 | **£1.92** | £1.56–£1.97 | 18 May 2021 | 1 (see below) |
| Colin Harris | 398,152 | £0.0234 | **£1.92** | £1.56–£1.97 | 18 May 2021 | 2 (see below) |
| Clinton Dines | 398,153 | £0.0234 | **£1.92** | £1.56–£1.97 | 18 May 2021 | 2 (see below) |
| Dave Elzas | 199,076 | £0.0234 | **£1.92** | £1.56–£1.97 | 18 May 2021 | 2 (see below) |

### Vesting criteria 1

Awards will vest the later of:

(i) The expiry, exercise or non-exercise or termination of Xstrata's First Call Option to acquire a majority controlling interest in Jumelles; and
(ii) The completion of the PFS to the satisfaction of the Board.

### Vesting criteria 2

Awards will vest in equal tranches of one-third on the date of Admission and the two anniversaries following Admission.

There were no options outstanding at the beginning of the year. The Directors have not exercised any options during the year (2009: $nil).

The total charge to the profit and loss account for the awards made to the Directors in the year to 31 December 2010 was $941,000. Further details of the LTIP can be found in Note 11 to the Financial Statements on pages 45 to 47.

By order of the Board

**Dave Elzas**
Chairman
Remuneration Committee
24 May 2011

# Independent Auditor's report

## to the Members of Zanaga Iron Ore Company Limited

We have audited the financial statements of Zanaga Iron Ore Company Limited for the year ended 31 December 2010, comprising the Statement of Comprehensive Income, Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared in accordance with the AIM Rules for Companies and on the basis of the financial reporting framework of International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company's members those matters we have been engaged to state to them in this 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's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and KPMG Audit Plc**

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the financial statements, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with the terms of our engagement letter dated 26 April 2011 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the entity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

**Opinion on financial statements**

In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU.

**KPMG Audit Plc**
Chartered Accountants
24 May 2011

# Statement of comprehensive income

for year ended 31 December 2010

| | Note | **1 January to 31 December 2010 $000** | 19 November to 31 December 2009 $000 |
|---|---|---|---|
| Administrative expenses | 4 | **(5,062)** | (96) |
| Share of loss of associate | | **(8,805)** | (1,476) |
| **Operating loss** | | **(13,867)** | (1,572) |
| Interest income | | **17** | – |
| **Loss before tax** | | **(13,850)** | (1,572) |
| Taxation | 5 | **–** | – |
| **Loss for the period** | | **(13,850)** | (1,572) |
| Share of other comprehensive income of associate – foreign exchange translation | | **621** | (85) |
| **Total comprehensive income loss** | | **(13,229)** | (1,657) |
| **Loss per share (basic and diluted) (cent)** | 12 | **(0.05)** | (0.01) |

The loss for the period is attributable to the equity holders of the parent company.

# Statement of changes in equity

## for year ended 31 December 2010

| | Share capital $000 | Retained earnings $000 | Foreign currency translation reserve $000 | Total equity $000 |
|---|---|---|---|---|
| Balance at 19 November 2009 | | | | |
| Issue of shares | 223,967 | – | – | 223,967 |
| Repurchase of shares | (16,000) | – | – | (16,000) |
| Loss for the period | – | (1,572) | – | (1,572) |
| Other comprehensive income | – | – | (85) | (85) |
| Total comprehensive loss | – | (1,572) | (85) | (1,657) |
| **Balance at 31 December 2009** | 207,967 | (1,572) | (85) | 206,310 |
| Balance at 1 January 2010 | **207,967** | **(1,572)** | **(85)** | **206,310** |
| Issue of shares – listing | **44,114** | **-** | **-** | **44,114** |
| Consideration for share-based payments – share issue costs | **481** | **-** | **-** | **481** |
| Consideration for share-based payments – other services | **3,508** | **-** | **-** | **3,508** |
| Loss for the period | **-** | **(13,850)** | **-** | **(13,850)** |
| Other comprehensive income | **-** | **-** | **621** | **621** |
| Total comprehensive loss | **-** | **(13,850)** | **621** | **(13,229)** |
| **Balance at 31 December 2010** | **256,070** | **(15,422)** | **536** | **241,184** |

# Balance sheet

## For year ended 31 December 2010

| | Note | 2010 $000 | 2009 $000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Investment in associate | 6 | **192,799** | 198,439 |
| **Current assets** | | | |
| Other receivables | 7 | **80** | 11 |
| Cash and cash equivalents | 8 | **49,318** | 8,106 |
| | | **49,398** | 8,117 |
| **Total Assets** | | **242,197** | 206,556 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **(1,013)** | (246) |
| **Net assets** | | **241,184** | 206,310 |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 10 | **256,070** | 207,967 |
| Retained earnings | | **(15,422)** | (1,572) |
| Foreign currency translation reserve | | **536** | (85) |
| **Total equity** | | **241,184** | 206,310 |

These financial statements set out on pages 35 to 49 were approved by the Board of Directors on 24 May 2011 and were signed on its behalf by:

**Mr M Haworth**
Director

**Mr C Elphick**
Director

# Cash flow statement

for year ended 31 December 2010

| | Note | **1 January to 31 December 2010 $000** | 19 November to 31 December 2009 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Total comprehensive loss for the period | | **(13,229)** | (1,657) |
| *Adjustments for:* | | | |
| Increase in other receivables | | **(69)** | (11) |
| Increase in trade and other payables | | **532** | 246 |
| Net exchange loss | | **1,343** | - |
| Share of loss of associate | | **8,184** | 1,561 |
| Share-based payments | | **964** | |
| **Net cash from operating activities** | | **(2,275)** | 139 |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | | **49,507** | 25,000 |
| Share issue costs | | **(4,912)** | (1,033) |
| Repurchase of own shares | | **-** | (16,000) |
| **Net cash from financing activities** | | **44,595** | 7,967 |
| Net increase in cash and cash equivalents | | **42,320** | 8,106 |
| Effect of exchange rate difference | | **(1,108)** | - |
| Cash and cash equivalents at beginning of period | | **8,106** | - |
| **Cash and cash equivalents at end of period** | 8 | **49,318** | 8,106 |

The notes on pages 39 to 49 form an integral part of the financial statements.

# Notes to the financial statements

## 1 Business information and going concern basis of preparation

### Background

Zanaga Iron Ore Company Limited (the "Company"), was incorporated on 19 November 2009 under the name of Jumelles Holdings Limited. The Company changed its name on 1 October 2010. The Company is incorporated in the British Virgin Islands ("BVI") and the address of its registered office, is situated at Coastal Building, 2nd Floor, Wickham's Cay II, Road Town, Tortola, BVI. The Company's principal place of business as an investment holding vehicle is situated in Guernsey, Channel Islands.

As at 31 December 2010 the Company held 100% of the share capital of Jumelles Limited ("Jumelles") subject to the Xstrata's First Call Option (as defined below).

In 2007, Jumelles became the special purpose holding company for the interests of its then ultimate 50/50 founding shareholders, Garbet Limited ("Garbet") and Guava Minerals Limited ("Guava"), in Mining Project Development Congo SAU ("MPD Congo") which owns and operates 100% of the Zanaga Project in the Republic of Congo (subject to a minimum 10% free carried interest in MPD Congo in favour of the Government of the Republic of Congo).

In December 2009 Garbet and Guava contributed their then respective 50/50 joint shareholding in Jumelles to the Company.

Garbet is majority owned by Strata Limited ("Strata"), a private investment holding company based in Guernsey, which specialises in the investment and development of early stage natural resource projects in emerging markets, predominately Africa. Garbet owns approximately 41.25% of the share capital of the Company.

Guava is majority owned by African Resource Holdings Limited ("ARH"), a BVI company that specialises in the investment and development of early stage natural resource projects in emerging markets. Guava owns approximately 31.64% of the share capital of the Company.

The balance of shareholding in the Company is predominantly held by a number of reputable institutional investors in the mining sector.

Jumelles has three subsidiary companies, namely Jumelles M Limited, Jumelles Technical Services (UK) Limited and MPD Congo.

### Xstrata Transaction

On 16 October 2009, Garbet, Guava and Jumelles entered into a transaction with Xstrata (Schweiz) AG (on 3 December 2009, Xstrata (Schweiz) AG was substituted by Xstrata Projects (pty) Limited ("Xstrata Projects"), comprising of two principal transaction agreements (together the "Xstrata Transaction"):

- a call option deed which gave Xstrata Projects an option to subscribe for 50% plus 1 share of the fully diluted and outstanding shares of Jumelles in return for providing funding towards on-going exploration of the Zanaga exploration licence area and a pre-feasibility study (the "PFS") subject to a minimum amount of $50 million (the "Xstrata Call Option"). Under the terms of the Xstrata Call Option, the consideration payable by Xstrata Projects for the option shares that would be issued by Jumelles Limited would comprise (i) a commitment to fund all costs to be incurred by Jumelles Limited in completing a feasibility study on the Zanaga Project (the "FS") (provided such amount shall be greater than $100 million) or to carry out such a feasibility study at its own cost and (ii) payment of an amount (up to a maximum of $25 million) equal to the amount that Jumelles Limited owes to Garbet and Guava as loans which would be used to repay the latter; and
- a joint venture agreement which regulates the respective rights of the Company, Jumelles and Xstrata Projects in relation to Jumelles following exercise of the Xstrata Call Option and gives Xstrata Projects the right to purchase the Company's remaining 50% minus 1 share interest in Jumelles ("Minority Stake") following completion of the FS and deals with the terms on which Jumelles will be funded following completion of the FS (the "JVA").

During 2010, the PFS progressed and following completion of Phase I of that study Xstrata Projects countersigned a further funding letter confirming in writing its agreement (subject to the provisions of the Xstrata Call Option) to contribute further funding and confirming its approval of the phase II work program, budget and funding amount (up to $56.49 million) as set out in that letter.

On 11 February 2011 Xstrata Projects exercised the Xstrata Call Option and the exercise paid (the "Call Option Price") is the sum of:

- the aggregate costs of completing the FS, provided that such amount is greater than US$100,000,000 (excluding the Call Option Premium); plus
- sums to repay all outstanding founding shareholder loans then amounting to US$21,277,334.

The Call Option Price must not exceed an amount that would result in it being a Class 2 Transaction for Xstrata.

## 1 Business information and going concern basis of preparation *continued*

### Relationship between Jumelles and Xstrata pending exercise of the First Xstrata Call Option

The terms of the Xstrata Call Option include a number of decisions and actions, including setting the scope of the PFS and appointing contractors, that may not be taken by Jumelles without receiving Xstrata Projects' prior consent. There are also a number of actions that Jumelles and its subsidiaries are required to take including keeping Xstrata informed of all material matters. These restrictions and obligations are customary in the context of a joint venture and are intended to ensure that Xstrata Projects is not prejudiced, legally or economically, by the actions of Garbet, Guava, Jumelles or the Company.

### Relationship between Jumelles and its shareholders after exercise of the First Xstrata Call Option

The Company, Jumelles and Xstrata Projects agreed to regulate their respective rights in relation to the Zanaga Project following exercise of the Call Option under the terms of the JVA. Under the terms of the JVA, all significant decisions regarding the conduct of Jumelles' business (other than certain protective rights which require the agreement of shareholders holding at least 95% of the voting rights in Jumelles) are made by the Board of Directors.

Each shareholder holding 15% or more of the votes in Jumelles has the right to appoint a director to the Board of that company. At any Board meeting, each such director will have such number of votes as represents the appointing shareholder's voting rights in the general meetings of Jumelles.

As a consequence, following exercise of the Xstrata Call Option (which completed on 11 February 2011), Xstrata Projects controls Jumelles at both a shareholder and director level and therefore controls what was the Company's sole mineral asset, the Zanaga Project, and going forward the Company has a strategic partnership in respect of the Zanaga Project with Xstrata.

Following exercise of the Xstrata Call Option, the principal business of the Company has comprised managing its 50% less one share interest in the Zanaga Project and monitoring both the finalisation of the pre-feasibility study and the preparation of the feasibility study.

In addition, under the terms of the JVA, following exercise of the Xstrata Call Option Xstrata Projects has the right to require all the other shareholders in the Company to sell their shares to Xstrata for a period of 90 days following completion of the FS. Therefore Xstrata projects could elect to acquire 100% of the Zanaga Project following completion of the FS. The JVA has provisions governing how any dispute as to the price to be paid would be resolved. The exercise of this right is not subject to the approval of Zanaga's shareholders.

### Future funding requirements and going concern basis of preparation

In common with many exploration and development companies in the mining sector, the Company raises funding in phases as its projects develop.

Following exercise of the Xstrata Call Option, Xstrata is required to fund and implement the FS in accordance with the Xstrata Transactions. Xstrata has undertaken to use its reasonable endeavours to complete the FS at least three months prior to the expiration of the Zanaga Exploration Licence in May 2014, assuming renewal of the Zanaga Exploration Licences in May 2012 and subject to there being no adverse change. The cost of the Company's personnel and the technical experts appointed to oversee the project are the only expenditures currently envisaged during the period of the FS work programme and the Company has significant cash resources available. In the circumstances, the Directors have a reasonable expectation that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For these reasons, the financial statements of the Company have been prepared on a going concern basis.

In the event that a decision is taken to develop a mine at Zanaga (and assuming that Xstrata Projects has not acquired the Company's interest in Jumelles), the Company will need to raise further funds.

## 2 Accounting policies

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

### Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("Adopted IFRS"). Adopted IFRS comprises standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") as adopted by the European Union.

The Company holds an investment in an associate which is accounted for using the equity method. These financial statements represent individual financial statements.

### New standards, amendments and interpretations

The following Standards and Interpretations were issued during the year, but were not effective at the balance sheet date:

- IAS 32 – (Amended) – Financial instruments: Presentation – classification on rights issues
- IFRS 1 – (Amended) – First-time adoption – on exemption of new fair value disclosures
- IFRIC 19 – Extinguishing financial liabilities with equity instruments.

These standards have not been applied in preparing the financial statements for the year ended 31 December 2010.

It is not anticipated that the adoption of these standards will have any significant impact on the financial statements.

## 2 Accounting policies *continued*

### Measurement convention

These financial statements have been prepared on the historical cost basis of accounting.

The preparation of financial statements in conformity with Adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

### Associates

Investments in associates are recorded using the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the Company's share of the net assets of the associate. The Company's profit or loss and other comprehensive income includes the Company's share of the associate's profit or loss and other comprehensive income. The investment is considered for impairment annually.

### Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

### Share-based payments

The Company makes equity-settled share-based payments to certain employees and similar persons as part of a long-term incentive plan ("LTIP"). The fair value of the equity-settled share-based payments is determined at the date of the grant and expensed, with a corresponding increase in equity, on a straight line basis over the vesting period, based on the Company's estimate of the awards that will eventually vest, save for any changes resulting from any market-performance conditions.

Where awards are granted to employees of the Company's associate and similar persons, the equity-settled share-based payment is recognised by the Company as an increase in the cost of the investment with a corresponding increase in equity over the vesting period of the award.

The shares to be issued under the LTIP are acquired by an Employee Benefit Trust which has to date subscribed for the shares at zero value. These shares are held by the Employee Benefit Trust until the vesting conditions have been met. Information on the share awards are provided in note 11 to these financial statements.

### Share-based payments to non-employees

Where the Group received goods or services from a third party in exchange for its own equity instruments and the amount of equity instruments is fixed, the equity instruments and related goods or services are measured at the fair value of the goods or services received and are recognised as the goods are obtained or the services rendered. Equity instruments issued under such arrangements for the receipt of services are only considered to be vested once provision of services is complete.

### Non-derivative financial instruments

Non-derivative financial instruments in the balance sheet comprise other receivables, cash and cash equivalents, and trade and other payables.

**Other receivables**

Other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

**Trade and other payables**

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Ordinary shares issued to the Employee Benefit Trust under the LTIP or to non-employees for services provided to the Company, are included within Share Capital.

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

### Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

## 2 Accounting policies *continued*

**Calculation of recoverable amount**

The recoverable amount of the Company's investments and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair values less costs to sell and value in use. 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.

**Reversals of impairment**

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### Expenses

**Financing income and expenses**

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

**Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

### Segmental Reporting

The Company has one operating segment, being its investment in the Zanaga Project, held through Jumelles Limited. Financial information regarding this segment is provided in note 6.

### Subsequent events

Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

## 3 Critical accounting estimates, assumptions and judgements

The Company makes estimates and assumptions concerning the future that are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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.

### Impairment of investment in associate

The value of the Company's investment in Jumelles depends very largely on the value of Jumelles' interest in the Zanaga Project. Jumelles assesses at least annually whether or not its exploration projects may be impaired. This assessment can involve significant judgement as to the likelihood that a project will continue to show sufficient commercial promise to warrant the continuation of exploration and evaluation activities.

### Accounting for the Company's interest in Jumelles Limited

Significant judgement has been applied in arriving at the accounting treatment of the Company's interest in Jumelles as explained in note 6.

## 4 Note to the comprehensive income statement

Operating loss before tax is stated after charging:

| | 1 January to 31 December 2010 $000 | 19 November to 31 December 2009 $000 |
|---|---|---|
| Share-based payments (see note 11) | **964** | - |
| Net foreign exchange loss | **1,343** | - |
| Directors' fees | **309** | - |
| Auditors' remuneration | **39** | 5 |
| General expenses | **2,407** | 91 |
| | **5,062** | 96 |

The Company did not directly employ any staff during 2010 or 2009 other than the Company Directors. The Directors received $309,000 remuneration for their services as Directors of the Company (2009: $nil). The amounts paid as Directors' fees are shown in the Directors' remuneration report on pages 30 to 33. The Directors' interests in the share capital of the Company are shown in the Directors' remuneration report on pages 30 to 33.

## 5 Taxation

The Company is exempt from most forms of taxation in the British Virgin Islands ("BVI"), provided the Company does not trade in the BVI and does not have any employees working in the BVI. All dividends, interest, rents, royalties and other expense amounts paid by the Company, and capital gains are realised with respect to any shares, debt obligations or other securities of the Company, are exempt from taxation in the BVI.

The effective tax rate for the Company is therefore $nil (2009: $nil).

## 6 Investment in associate

| | $000 |
|---|---|
| Balance at 19 November 2009 | - |
| Acquisition | 200,000 |
| Share of post acquisition comprehensive income | (1,561) |
| Balance at 31 December 2009 | 198,439 |
| Balance at 1 January 2010 | 198,439 |
| Additions | 2,544 |
| Share of post acquisition comprehensive income | (8,184) |
| **Balance at 31 December 2010** | **192,799** |

The investment represents a 100% holding in Jumelles for the entire share capital of 2,000,000 shares. The shares were acquired in exchange for shares in the Company and have been recorded at fair value of the interest acquired.

The increase in the investment during the year ended 31 December 2010 is due to the Company granting awards under the LTIP to employees of Jumelles (as set out in note 11).

Since its acquisition and up to 31 December 2010, the investment in Jumelles does not represent an investment in a subsidiary due to the call option held by Xstrata described in note 1 above which throughout that period gave Xstrata potential voting rights which would have been sufficient for Xstrata to control Jumelles. Nevertheless following exercise of the option, the residual rights that would be retained by the Company are sufficient in the view of the Directors to provide the Company with the power to participate significantly in the financial and operating decisions affecting Jumelles. As a consequence the Company's interest is accounted for as an associate using the equity method of accounting. As the Company actually had 100% participation in the profits and assets of Jumelles throughout this period, the Company has accounted for a 100% interest in Jumelles.

Jumelles has itself accounted for the Xstrata transaction as an in-substance equity-settled share-based payment for the provision of services by Xstrata to Jumelles in relation to the PFS and the FS. These services largely are provided through third party contractors and are measured at the cost of the services provided.

As explained in note 1, subsequent to the year end on 11 February 2011, Xstrata exercised the call option and from that date owns 50% plus one share of Jumelles and Jumelles is controlled at both a shareholder and director level by Xstrata. However, as the shares issued on exercise of the option are not considered to vest until provision of the services relating to the PFS and the FS has been completed, the Company will continue to account for a 100% interest in Jumelles Limited until the FS has been completed. Only at that time will the Company account for a reduction in its interest in Jumelles.

## 6 Investment in associate *continued*

As at 31 December 2010, Jumelles had aggregated assets of $101,783,000 (2009: $62,422,000) and aggregated liabilities of $30,846,000 (2009: $24,763,000). For the year ended 31 December 2010, it incurred administrative expenses of $5,992,000 (year ended 31 December 2009: $8,332,000) and incurred a tax charge of $269,000 (year ended 31 December 2009: $426,000). A summarised consolidated balance sheet of Jumelles Limited for the year ended 31 December 2010, including adjustments made for equity accounting, is included below:

| | **2010 $000** | 2009 $000 |
|---|---|---|
| Non-current assets | | |
| Property, plant and equipment | **13,623** | 6,654 |
| Exploration and other evaluation assets | **78,954** | 22,904 |
| | **92,577** | 29,558 |
| Current assets | **9,206** | 32,864 |
| Current liabilities | **(30,846)** | (24,763) |
| Net current (liabilities)/assets | **(21,640)** | 8,101 |
| Net assets | **70,937** | 37,659 |
| Share capital | **3,063** | 519 |
| Share option reserve | **88,918** | 50,000 |
| Translation reserve | **(52)** | (673) |
| Retained earnings | **(20,992)** | (12,187) |
| | **70,937** | 37,659 |

## 7 Other receivables

| | **2010 $000** | 2009 $000 |
|---|---|---|
| Prepayments | **80** | 11 |

## 8 Cash

| | **2010 $000** | 2009 $000 |
|---|---|---|
| Cash and cash equivalents | **49,318** | 8,106 |

## 9 Trade and other payables

| | **2010 $000** | 2009 $000 |
|---|---|---|
| Accounts payable | **677** | 246 |
| Amounts payable to the Jumelles Limited group | **336** | – |
| | **1,013** | 246 |

Amounts payable to the Jumelles Limited group comprise of $298,000 payable to Jumelles (2009: $nil) and $38,000 payable to Jumelles Technical Services (UK) Limited (2009: $nil). No amounts payable are due in more than 12 months (2009: $nil).

## 10 Share capital

| | Ordinary shares |
|---|---|
| In thousands of shares | |
| At incorporation – 19 November 2009 | – |
| Issued in exchange for shares in Jumelles Limited | 100,000 |
| Issue of additional shares | 12,500 |
| Repurchase of shares | (10,526) |
| **On issue at 31 December 2009 – fully paid** | 101,974 |
| Sub-division of shares | 152,960 |
| New shares issued pursuant to placing | 19,908 |
| Shares issued to the Employee Trust under the LTIP | 5,574 |
| **On issue at 31 December 2010 – fully paid** | **280,416** |

The Company is able to issue an unlimited number of no par value shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. No dividends have been paid or declared in the current year (2009: $nil).

## 10 Stated capital *continued*

### Share capital changes in 2009

On incorporation on 19 November 2009 the Company issued 1 ordinary share to Garbet Limited. Subsequently in 2009, the Company issued 99,999,999 shares (50,000,000 to its founding shareholders Guava and 49,999,999 to Garbet) in return for the entire share capital of Jumelles. This exchange was part of a reorganisation plan so that Guava and Garbet would be sole owners of the Company, which would in turn be the 100% owner of Jumelles.

Subsequently Guava reduced its holdings by 10,526,315 to 39,473,685 through a share repurchase in December 2009. 12,250,000 shares were issued to institutional investors and a further 250,000 to Garbet. These shares were issued for cash of $25,000,000 and are disclosed net of issue costs of $1,033,000.

### Share capital changes in 2010

On 15 November 2010, pursuant to a written resolution of the Directors dated the same day, each ordinary share of the Company was divided into 2.5 ordinary shares creating 152,960,527 new shares.

The Company was admitted to trading on AIM on 18 November 2010 at which point the total number of shares in issue was 254,934,212.

On Admission to AIM the Company issued 19,907,629 new ordinary shares at 156 pence each. These shares were issued for cash of $49,507,000 and are disclosed net of issue costs of $5,393,000.

Under a deed of warrant dated 17 November 2010 the Company granted to Liberum, the Company's Nominated Advisor and Broker, conditional on admission a warrant to subscribe for, at the placing price of £1.56, new ordinary shares equal in value to 5% of the aggregate number of new shares issued on admission (998,382 shares), exercisable within 12 months of Admission which have not been exercised to date. $481,000 of the issue costs on Admission to AIM relate to the fair value of services received under this deed of warrant.

A total of 5,574,135 ordinary shares were issued for nil consideration to a discretionary trust established for the benefit of current and former employees and officeholders of the Company and the Jumelles group in connection with the Company's LTIP. Further details of this scheme can be found in note 11.

## 11 Share-based payments

### Employees

As stated under Note 2 above the Company has implemented a LTIP in order to recruit and retain key officers and employees of the Company and the Company's associate. For all key management personnel, the LTIP is structured as a split interest scheme. On the date of the award, the employee and the Employee Trust enter into an agreement to acquire shares as joint owners with the employee's proportion of ownership of each share being; 0.001% of the total value up to a given hurdle and 99.999% of the total value above the hurdle. The hurdle is determined on advice of the Remuneration Committee. The employee will pay the market value for his joint ownership of the shares. If the vesting conditions are not met, the employee forfeits joint ownership of the shares. If the award meets the vesting conditions, the employee has the right to exercise the option and become the sole owner of the shares. The Company has also granted a number of awards of share options to middle management. Under these awards the Trust grants the employee the right to acquire shares if certain vesting conditions are achieved. The employee is not required to pay an exercise price for these shares.

A number of separate awards were made on 18 November 2010. Different awards were made subject to several different vesting conditions.

### Award 1

These awards vest on the later of the following:
- The exercise or non-exercise by Xstrata or expiry or termination of the First Call Option to acquire its Majority Stake in Jumelles; and
- The completion of the PFS to the satisfaction of the Board.

There are specific provisions that apply to the awards in respect of takeover and corporate transaction provisions and provisions relating to cessation of employment or ceasing to provide services.

### Award 2

These awards vest as follows:
- In respect of 1/3 of the shares subject to the awards, immediately on Admission;
- In respect of 1/3 of the shares subject to the awards, on the expiry of one year following Admission;
- In respect of 1/3 of the shares subject to the awards, the expiry of two years following Admission.

There are specific provisions that apply to the awards in respect of takeover and corporate transaction provisions and provisions relating to cessation of employment or ceasing to provide services.

### Award 3

These awards vest on the expiry of the following periods:
- In respect of 1/2 of the shares subject to the awards, the expiry of one year following Admission;
- In respect of 1/2 of the shares subject to the awards, the expiry of two years following Admission.

The application of the vesting criteria in the three awards above is subject to the discretion of the Board of Directors who can also vary the criteria if they see fit. There are specific provisions that apply to the early vesting of awards in the event of takeover and corporate transaction provisions and provisions relating to cessation of employment or ceasing to provide employment.

## 11 Share-based payments *continued*

The following information is relevant to the awards made during the year:

| | Award 1 | | Award 2 | | Award 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Weighted Average Exercise Price (£) | Number | Weighted Average Exercise Price (£) | Number | Weighted Average Exercise Price (£) | Number | Weighted Average Exercise Price (£) | Number |
| At start of year | N/A | Nil | N/A | Nil | N/A | Nil | N/A | Nil |
| Granted | £0.02 | 4,260,235 | £0.02 | 995,382 | £1.58 | 199,076 | £0.08 | 5,454,693 |
| Forfeited | N/A | Nil | N/A | Nil | N/A | Nil | N/A | Nil |
| Exercised | N/A | Nil | N/A | Nil | N/A | Nil | N/A | Nil |
| Lapsed | N/A | Nil | N/A | Nil | N/A | Nil | N/A | Nil |
| At end of year | £0.02 ($0.03) | 4,260,235 | £0.02 ($0.04) | 995,382 | £1.58 ($2.45) | 199,076 | £0.08 ($0.12) | 5,454,693 |

| | Award 1 | Award 2 | Award 3 | Total |
|---|---|---|---|---|
| Range of exercise prices (£ and $*) | £0.00-£0.02 ($0.00-$0.03) | £0.02 ($0.04) | £1.58 ($2.45) | £0.00-£1.58 ($0.00-$2.45) |
| Weighted average share price at date of exercise (£) | N/A | N/A | N/A | N/A |
| Total share awards vested (No.) | Nil | 331,794 | Nil | 331,794 |
| Weighted average fair value of share awards granted in the period (£ and $*) | £1.54 ($2.38) | £1.54 ($2.38) | £0.39 ($0.60) | £1.40 ($2.17) |
| Weighted average remaining contractual life (days) | 219 days | 502 days | 502 days | 281 days |

* Sterling amounts have been converted into US Dollars at the year end closing exchange rate of $1.547:£1.

It is currently expected that awards will vest in full.

The following information is relevant in the determination of the fair value of options granted:

| | Award 1 | Award 2 | Award 3 | Total |
|---|---|---|---|---|
| Option pricing model used | Black-Scholes | Black-Scholes | Black-Scholes | Black-Scholes |
| Weighted average share price at date of grant (£ and $*) | £1.56 ($2.43) | £1.56 ($2.43) | £1.56 ($2.43) | £1.56 ($2.43) |
| Weighted average contractual life (days) | 264 days | 365 days | 548 days | 293 days |
| Expected volatility (%) | 50% | 50% for less than 1 year expected life, 55% for more than 1 year expected life | 50% for less than 1 year expected life, 55% for more than 1 year expected life | 50% for less than 1 year expected life, 55% for more than 1 year expected life |
| Dividend growth rate (%) | Zero | Zero | Zero | Zero |
| Risk-free interest rate (%) | 0.51% for 6 month expected life 0.69% for 12 month expected life | 0.69% for 12 month expected life 1.12% for 24 month expected life 1.55% for 36 month expected life | 0.69% for 12 month expected life 1.12% for 24 month expected life | 0.51% for 6 month expected life 0.69% for 12 month expected life 1.12% for 24 month expected life 1.55% for 36 month expected life |

* Sterling amounts have been converted into US Dollars at the year end closing exchange rate of $1.547: £1.

The volatility assumption is measured by reference to the historic volatility of comparable companies based on the expected life of the option.

## 11 Share-based payments *continued*

### Non-employees

The Company has also granted an award of share options in respect of consultancy services provided by Francois Du Plessis as a member of Strata Capital UK LLP on 17 November 2010. The options have a weighted average price of £1.56 ($2.43), a weighted average fair value of £0.39 ($0.62) and a weighted average contractual life of 502 days. The awards have the same terms as the Award 3 issued under the LTIP and have therefore been fair valued using the same model and valuation assumptions.

The total equity-settled share-based payment expense recognised as an operating expense during the period was $964,000, of which $941,000 related to the Directors and $23,000 related to consultancy services provided by Strata. Further details of share-based payments awarded to Directors of the Company can be found in the remuneration report on pages 30 to 33.

The total equity-settled share-based payments awarded to employees of companies in which the Company has a significant interest totals $2,544,000 and has been added to the cost of investment in those companies.

## 12 Loss per share

| | 2010 | 2009 |
|---|---|---|
| **Loss (Basic and diluted)** | **(13,850)** | (1,572) |
| **Weighted average number of shares (thousands)** | | |
| Basic and diluted | | |
| Issued shares at beginning of period | **101,974** | - |
| Effect of shares issued | **33,788** | 55,952 |
| Effect of share repurchase | **-** | (3,318) |
| Effect of own shares | **(657)** | - |
| Effect of share split | **122,229** | 78,952 |
| Weighted average number of shares at 31 December – basic | **257,334** | 131,586 |
| **Loss per share (cent)** | | |
| Basic and diluted | **(0.05)** | (0.01) |

The calculation of loss per share for the period ended 31 December 2009 has been restated for the share split that took place on 15 November 2010 in accordance with the retrospective adjustment requirements of IAS 33 earnings per share.

There are potential ordinary shares outstanding, refer to note 10 and 11 for details of these potential ordinary shares.

## 13 Financial instruments

### Fair values of financial instruments

**Other receivables**
The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. The fair values approximate book values.

**Trade and other payables**
The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. The fair values approximate book values.

**Cash and cash equivalents**
The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

### Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (comprising currency risk and interest rate risk). The Company seeks to minimise potential adverse effects of these risks on the Company's financial performance. The Board has overall responsibility for managing the risks and the framework for monitoring and coordinating these risks. The Company's financial risk management policies are set out below:

**(a) Credit risk**
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables related parties. The Company has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. At 31 December, the financial assets exposed to credit risk were as follows:

| | 2010 | 2009 |
|---|---|---|
| Cash and cash equivalents | **49,318** | 8,106 |

## 13 Financial instruments *continued*

### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company evaluates and follows continuously the amount of liquid funds needed for business operations, in order to secure the funding needed for business activities and loan repayments. The availability and flexibility of the financing is needed to assure the Company's financial position. The Company's funding requirements are detailed in note 1.

Details of the maturity of financial liabilities are provided in note 9.

### (c) Market risk

*(i) Foreign currency risk*

The foreign currency denominated financial assets and liabilities are not hedged, thus the changes in fair value are charged or credited to profit and loss.

As at 31 December 2010 the foreign currency denominated assets include cash balances held in sterling of $42,861,000, other receivables denominated in Sterling of $77,000, and accounts payable of $599,000 denominated in sterling, $25,000 in South African Rands and $38,000 in Euros.

The following significant exchange rates applied during the year:

| | **Average rate 2010** | **Reporting date spot rate 2010** | Average rate 2009 | Reporting date spot rate 2009 |
|---|---|---|---|---|
| Against US Dollars | **$** | **$** | $ | $ |
| Pounds Sterling | **1.546** | **1.547** | 1.634 | 1.592 |

*Sensitivity analysis*

A 10% weakening of the following currencies against the US Dollar at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

| | **Equity 2010 $'000** | **Profit or loss 2010 $'000** | Equity 2009 $'000 | Profit or loss 2009 $'000 |
|---|---|---|---|---|
| Pounds Sterling | **(4,346)** | **(4,346)** | (22) | (22) |

A 10% strengthening of the above currencies against the US Dollar at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

*(ii) Interest rate risk*

The Company is exposed to interest rate fluctuations on its cash deposits. The Company uses overnight cash deposits to maximise interest received. A 0.5 percentage point increase in interest rates will increase interest income by approximately $0.25 million on an annual basis based on the amount of cash on hand at 31 December 2010.

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence. Capital consists of share capital and retained earnings.

The Directors do not intend to declare or pay a dividend in the foreseeable future but, subject to the availability of sufficient distributable profits, intend to commence the payment of dividends when it becomes commercially prudent to do so.

The Company has a LTIP which is administered by the Remuneration Committee. The LTIP is discretionary and the Remuneration Committee will decide whether to make share awards under the LTIP at any time. The Company's Employee Benefit Trust buys the shares in the Company to be issued under the LTIP.

## 14 Commitments

The Company had no capital commitments or off-balance sheet arrangements at 31 December 2010 (31 December 2009: nil).

## 15 Related parties

The Company's relationships with Jumelles, Garbet, Guava and Xstrata are described in note 1 above.

The following transactions occurred with related parties during the period:

| | Transactions for the period | | Closing balance | |
|---|---|---|---|---|
| | **2010 $'000** | 2009 $'000 | **2010 $'000** | 2009 $'000 |
| Intercompany payable Jumelles Limited | **298** | – | **298** | – |
| Intercompany payable Jumelles Technical Services UK Limited | **38** | – | **38** | – |
| Strata Capital UK LLP | **57** | - | **57** | – |

In addition to the transactions above, the Company has also issued share options to Strata Capital UK LLP. Details of these options can be found in note 11.

### Transactions with key management personnel

| | **2010 $'000** | 2009 $'000 |
|---|---|---|
| Share-based payments | **964** | – |
| Directors' fees* | **309** | – |
| Total | **1,273** | – |

* Colin Harris was also paid $671,000 by Jumelles Technical Services (UK) Limited for his services provided to them as an employee in the capacity of TSA Project Leader.

The Directors have no material interest in any contract of significance subsisting during the financial year, to which the Company is a party.

## 16 Events occurring after the balance sheet date

See note 1 above for the details regarding (i) the exercise by Xstrata of its First Call option, (ii) Triggering of the JVA and (iii) the VEE currently undertaken in respect of the Zanaga Project.

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# Notes

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