Adding Real Value in African Iron Ore

Zanaga Iron Ore
Annual Report and Accounts 2011

A world class opportunity

Zanaga

Under the management of Xstrata, the Zanaga Project continues to advance as it moves 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 for supply into the global iron ore market

Overview

Business review

Governance

Financials

Shareholder Information

2011 highlights

February 2011 – Xstrata exercised its First Call Option and now owns a 50% plus one share interest in the Zanaga Project

- The Zanaga Project is now managed by Xstrata
- Xstrata has agreed to fund the completion of a feasibility study in accordance with international best practice standards and Xstrata internal guidelines
- Xstrata must use its reasonable efforts to ensure that the feasibility study is completed at least three months prior to expiry of the Mining Titles

October 2011 – Value Engineering Exercise (“VEE”) completed

- Results confirm the economic viability of the Zanaga Project
- Post VEE the projected cost of the 45Mtpa railway option remains in line with IPO estimates
- The slurry pipeline transportation option was revisited and an alternative 30Mtpa Pipeline Option (“Pipeline Option”) was identified with potential to further enhance project economics

Pipeline Pre-Feasibility Study (“Pipeline PFS”) in progress to refine the Pipeline Option and its economics

- Pipeline PFS expected to conclude Q3 2012

Feasibility Study (“FS”) and Environmental and Social Impact Assessment (“ESIA”)

- Scope of FS to be determined on conclusion of Pipeline PFS
- FS and ESIA expected to conclude in Q1 2014

October 2011 – Mineral resource upgrade

- Iron ore mineral resource expansion to 4.3Bt at an average grade of 33.0% Fe based on drilling completed to 26 August 2011
- Improvement in mineral resource classification – 62% of mineral resource report in “Measured” and “Indicated” JORC categories

Joint search initiated with Xstrata for a strategic partner for the Zanaga Project

Cash balance of US$45m as at 2011 year end

2011 resource tonnage expansion to

4.3Bt

Resource well defined (in Measured and Indicated JORC categories)

62%

Cash balance at year end

$45m

The Project at a glance

Large scale resource with future upside potential

- 4.3Bt JORC iron ore mineral resource grading on average 33% Fe[1]
- Total FS drilling of 174,000 metres complete (resource update due Q3 2012)
- Upside potential – approximately 50% of magnetic footprint drilled

Two transportation options

- Both Rail and Pipeline economically viable

Bottom quartile operating cost potential

Strategic and funding partnership with Xstrata

- Leveraging the expertise from a leading diversified major

1. Source mineral resource statement on inside back cover.

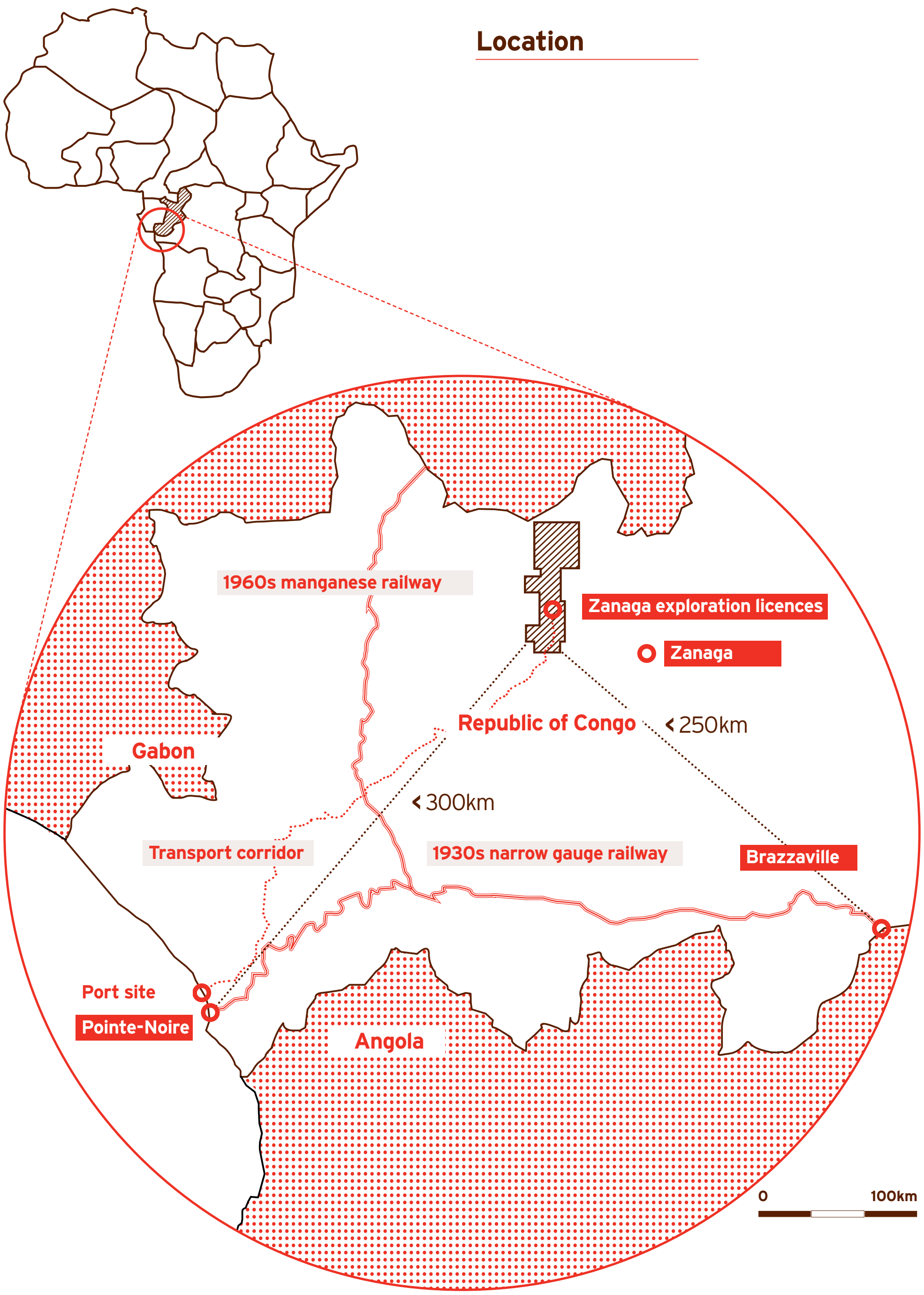
JORC Iron Ore Mineral Resource Grading on average 33% Fe[1]

4.3Bt

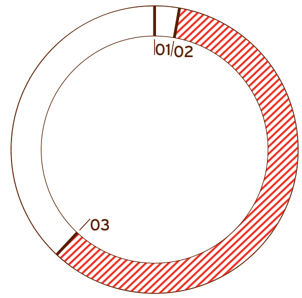
Above
Drilling in progress

The pipeline option has the potential to enhance the Zanaga Project's value by significantly reducing both capital expenditure and operating costs

Location



Resource Classification



01	Measured	3%
02	Indicated	59%
03	Inferred	38%

Above
Core sampling

Magnetic footprint drilled (approx)

50%

Chairman's statement

It has been a promising year for Zanaga Iron Ore Company ("ZIOC"; "the Group") with several key milestones successfully reached. Our core focus during the period has been to create clear value for ZIOC and its shareholders through a number of strategic initiatives, which have worked to increase confidence in the resource and provide increased visibility on the future viability of the Zanaga Project (the "Project"). I am pleased with the progress that has been made towards achieving this goal as the Zanaga Project becomes a significant, world-class iron ore development project in Africa.

The most notable achievement for ZIOC came in early 2011 when Xstrata chose to exercise its first call option to acquire a 50% plus one share interest in the Project (the "First Call Option"). The backing of a major mining company in the form of Xstrata significantly de-risks the Project, crystallises our strategic joint venture ("JV") with Xstrata and secures the future funding requirements of the Project until the completion of the feasibility study ("FS") in accordance with international best practice standards and Xstrata internal guidelines.

After the exercise of Xstrata's First Call Option in February 2011 a Value Engineering Exercise ("VEE") was undertaken as an initial phase to the FS. The VEE aimed to review and refine options and opportunities that could positively impact on the net present value ("NPV") of the Project, either through added value or the reduction of risk.

The outcome of this review confirmed that both a pipeline and a railway transportation solution are economically viable options for the development of the Project. In addition, significant value upside potential was identified in the pipeline transportation option. This resulted in the undertaking of a detailed Pipeline PFS to further refine this option and its costing. The outcomes of the Pipeline PFS, expected to conclude Q3 2012, will assist in determining the scope of the FS, including which transportation option will be taken through to final FS.

Cash balance at year end

$45m

With regard to the mineral resource at the Project, the project team has successfully completed an extensive drilling programme on the Project's orebody, delivering the resource upgrades during the year. The scale and definition of the iron ore mineral resource has now expanded to 4.3Bt at 33% Fe with more than 62% of the resource in the "Measured" and "Indicated" Joint Ore Reserves Committee ("JORC") categories. This mineral resource has been defined from drilling conducted over only 25 kilometres of the known 47-kilometre strike length of magnetic mineralisation, leaving potential for future expansion of the resource size and potential flexibility to increase estimated annual production levels.

Under the management of Xstrata, the Project continues to advance as it moves 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 for supply into the global iron ore market. We remain confident in the Project's ability to deliver further value as we turn our focus towards the completion of the FS, expected in Q1 2014.

Chairman's statement
continued

Drilling completed to date

>174,000m

Holes drilled

1,197

Iron ore market

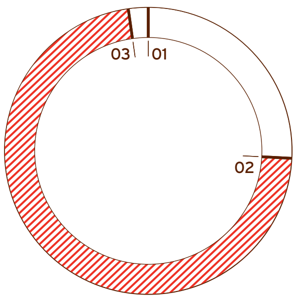
Demand for iron ore in 2011, as a result of growing steel output in China, saw record iron ore prices achieved during the year. While iron ore prices softened towards the end of Q3 2011, these regained somewhat towards the end of the year. China is a key driver for iron ore prices accounting for two thirds of global consumption, driven by its steel industry. Concerns over Chinese growth have resulted in some weakness in prices during 2012, however the anticipated growth in steel production in China and globally is expected to support iron ore prices in the long term and offset additional iron ore supply coming online. The World Steel Association expects China's steel use to increase by 4.0% in 2012 and 4% again in 2013, with total global steel demand expected to grow 3.6% and 4.5% in 2012 and 2013 respectively. As a result, we expect iron ore prices to remain supported at current levels in the short term and to respond favourably in 2013 to an expected supply deficit as global economies rebound. Rio Tinto, one of the world's largest iron ore producers, has stated that it expects Chinese steel production to increase to around 1Bt per annum in 2020, supporting our continued expectations of strong industrial demand in China and attractive ore prices in the long term.

Above
Surveying

Left
Drilling

Right
Excavation works in progress

Drilling breakdown



01	Diamond	26%
02	Reverse circulation	72%
03	Hydrogeological	2%

Strategic partnership with Xstrata

We are very pleased to have Xstrata, a global diversified mining group with a stated strategy to enter the iron ore market, as ZIOC's JV partner on the Project. Xstrata has been closely aligned to the Project since October 2009 when it entered into the First Call Option. Following the exercise of this First Call Option in February 2011, the Project is now managed by Xstrata. As part of the consideration for the majority stake Xstrata is obliged to fund the costs of a FS in accordance with international best practice and Xstrata's internal guidelines. Xstrata must use reasonable efforts to deliver the FS no later than three months prior to the expiration of the licences in May 2014 (assuming a second extension of the Project exploration licences anticipated in Q3 2012) or any subsequent renewal, subject to there being no material adverse change. Under the Republic of Congo Mining Code, after its initial three-year period, an exploration licence is permitted two extensions of two years, each of which are renewable upon request. The application for the second extension of the Zanaga exploration licences was submitted in March 2012.

The exercise of the First Call Option by Xstrata triggered the implementation of the Joint Venture Agreement ("JVA") between ZIOC and Xstrata governing the working relationship between the two companies. 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 joint venture company, Jumelles Limited ("Jumelles") in consideration for an agreed cash 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 the Second Call Option is not subject to shareholder approval.

A world-class opportunity

In addition to the joint venture with Xstrata, the combination of a number of key strengths supports the Board's view that the Project represents a significant opportunity.

The understanding of the Project's iron ore mineral resource has been greatly advanced during 2011 as a result of a thorough drilling and metallurgical test work programme. The large scale resource that has been defined has the potential to sustain a large scale production mine over the long term with the ability to supply iron ore to the global market of a quality expected to be comparable to Brazilian supply. With only 25 kilometres of the known 47-kilometre strike length of magnetic mineralisation having been drilled to date for the mineral resource, there remains significant potential upside to expand production and enhance value at the Project even beyond the extensive scale currently planned.

It is of major significance that the outcome of the VEE confirmed that in addition to the rail option, on which a PFS level study has already been completed (the "Railway PFS"), there is a viable opportunity to implement a slurry pipeline transportation option at potentially reduced capital expenditure and lower expected operating costs. In both the railway and pipeline cases operating costs are expected to be one of the lowest in the world while metallurgical test work indicates that the iron ore product would be of a very high quality with a high iron content and very low impurity levels.

The advances made on the Project during the year continue to support the Board's view that ZIOC is positioned to benefit from exposure to one of the most attractive iron ore projects globally.

Access to low cost energy

The PFS work to date indicates that the Project has the potential to be one of the lowest cost producers of iron ore globally. 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 Congo for oil producers to halt the flaring of natural gas, established oil and gas producer Eni S.p.A. constructed a 300MW power plant in Pointe-Noire to harness the local natural gas reserves. The 300MW plant has been commissioned and ZIOC understands that there are phased 150MW expansion plans with the potential to increase capacity up to a total capacity of 900MW at the same facility.

The Project team believes there is scope for the sustainable supply of low cost power from Pointe-Noire to the Project's operations.

Transport infrastructure

Pipeline/railway

The provision of infrastructure and logistics solutions is a key challenge in the development of any large scale iron project. In the course of 2011 the Project team and its consultants conducted detailed technical studies to refine the optimal transportation options, determining that both railway or pipeline transportation are potentially economically viable infrastructure solutions for the Project. Furthermore, the pipeline option has the potential to enhance the Project's value by significantly reducing both capital expenditure and operating costs. A Pipeline PFS was commenced in November 2011 to further refine this option and its costing, which will assist in determining which option to take through to final FS.

Chairman's statement continued

Port site

Work to date continues on the Project's excellent targeted bulk commodity port site located only 9 kilometres to the north of the existing public port of Pointe-Noire, which also currently services the local oil industry. A relatively short distance of approximately 5 kilometres to 20-metre deep tidal water off-shore and a natural channel offers the possibility, with minimal dredging, of a 1.6 kilometre long loading trestle with no required breakwater. Furthermore, the government has reserved a 700-hectare area in the future expansion of the PAPN (Port Autonome de Pointe-Noire) for the development of the port and mineral handling infrastructures for the Project.

Strategic partner process

Xstrata and ZIOC are currently assessing the potential to bring in a suitable strategic partner which could further enhance the long-term value of the Project, including through off-take on commercial terms, access to construction financing and construction expertise. Accordingly Xstrata and ZIOC have embarked on a joint process to identify a potential strategic partner to participate in the development of this world-class project. Xstrata intends to fully retain its interest in the Project. While there can be no certainty that this process will result in any transaction being completed ZIOC feels the process has already enhanced the Project's global profile, particularly in Asia.

VEE

After the exercise of Xstrata's First Call Option in February 2011 a VEE was undertaken as an initial phase to the FS. A team of internal and external experts was assembled to conduct the VEE with an aim to review and refine options and opportunities that could positively impact on the NPV of the Project, either through added value or the reduction of risk.

As part of the VEE the pipeline option was revisited to investigate several capex and opex optimisation possibilities as well as the fit with changing global iron ore market dynamics. The outcome of this review confirmed that both a railway and a pipeline transport option are economically viable infrastructure solutions for the development of the Project. In addition, the Pipeline Option has the potential to enhance the Project's value by reducing both capital expenditure and operating costs.

During the VEE phase, the project team continued its resource, geotechnical and hydro-geological drilling, metallurgical test work and all other associated port and mine site engineering and ESIA feasibility study work programmes.

Pipeline PFS

Following the VEE results a Pipeline PFS was commenced in order to refine the pipeline transportation option and its costing. The results of the Pipeline PFS will assist in determining which option to take through to final FS as well as the scope of such study.

The Pipeline PFS is a major piece of work conducted in conjunction with a consortium of top-tier consultants based in France and Australia. The consortium, named ACTE ("ACTE"), comprises EGIS (France based multi-national infrastructure engineering company with extensive experience in the Republic of Congo), Technip (France based multi-national engineering and construction company in the oil and gas, energy and mining industries), and Amec-Minproc (Australia based large international engineering company providing specialist iron ore processing and pipeline design).

The Pipeline PFS, expected to conclude in Q3 2012, will be a major catalyst for the Project, significantly improving our understanding of the project economics.

Corporate responsibility

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

Following the decision of Xstrata to exercise its First Call Option, the Project's approach to corporate responsibility is determined by Xstrata's Sustainable Development Framework. This comprises four elements (Business Principles, Sustainable Development Policy, Sustainable Development Standards and Assurance). A full version of the Sustainable Development Framework is available within the sustainability section of Xstrata's website (www.xstrata.com).

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 its investment in the Project and to achieve our strategic objective – to maximise the value of this investment.

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

Strategy

Our objective remains to maximise the value of ZIOC's 50% less one share minority stake in the Project pending the possible exercise by Xstrata of its Second Call Option. Following Xstrata's exercise of its First Call Option significant steps have been taken towards de-risking the Project. Under the terms of Xstrata's agreements with ZIOC, the Project is now managed by Xstrata and Xstrata is obliged to fund an FS in accordance with international best practice standards and Xstrata's internal guidelines.

It is important to note that following completion of the FS, if Xstrata does not exercise the Second Call Option and construction of the mine and related infrastructure commences, ZIOC will have a number of future funding options in relation to the construction phase, including: (i) dilution at NPV (as defined in the JVA) during construction; or (ii) a right to fund ZIOC's pro rata equity share of construction capital expenditure.

With a cash balance of US$45m as at 31 December 2011 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 any substantial further funding requirements until completion of the FS.

Looking forward

The results of the Pipeline PFS, expected to conclude in Q3 2012, together with the results of the Railway PFS and the VEE, will enable the final scope of the FS to be determined. In parallel with the Pipeline PFS, the project team continues to advance FS work streams. Xstrata must use its reasonable endeavours to ensure that the FS is competed by no later than three months prior to the expiration of the licences in May 2014 (assuming a second extension of the Project exploration licences anticipated in Q3 2012) or any subsequent renewal, subject to there being no material adverse change. As a result of Xstrata's funding obligations in relation to the Project, ZIOC does not currently foresee any substantial near-term spending obligations until completion of the FS. The cost of the ZIOC personnel, financial advisors and technical experts engaged or appointed by ZIOC in relation to the Project are currently our only budgeted expenditures for the Project during the FS phase of work.

Our focus going forward continues to be the monitoring of the Project's development. Key project milestones for 2012 are expected to be the completion of the Pipeline PFS, determination of the final scope of work for the FS, advancement of the Project's Environmental and Social Impact Assessment work streams, and ongoing interaction with the Government of the Republic of Congo on the Project's development and the terms of a definitive Mining Convention (Convention d'Etablissement) securing legal, commercial and regulatory aspects required for the Project's development.

The Board believes that the investment case for the Project is fully supported by strong industry fundamentals and continued demand for iron ore; as well as the scale and high quality of the Project, which continues to suggest value and world-class potential. The Board expects that this will underpin the substantial investment programme now being undertaken by Xstrata, pursuant to its legal agreements with ZIOC, and that the next phase in the development of the Project will continue to build shareholder value for ZIOC.

In the near term, ZIOC looks forward to the finalisation of the definitive results of the Pipeline PFS as we advance towards determining the final scope of the FS and the eventual completion of the FS process.

Clifford Elphick
Non-Executive Chairman

Left
Offshore drilling at proposed Port Site

Right
Core sampling

Business review

Unlocking value at a world class iron ore project.

Bottom quartile operating cost potential

The outcome of the Value Engineering Exercise review confirmed that both a pipeline and a railway transportation solution are economically viable options for the development of the Zanaga Project. In addition, significant value upside potential was identified in the pipeline transportation option.

Location

Operations review

Magnetic footprint drilled (approx)

50%

VEE

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

The VEE further built and expanded 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 was assembled to conduct the VEE with an aim to review and refine options and opportunities that could positively impact on the NPV of the Project, either through added value or the reduction of risk.

The VEE commenced on 16 March 2011 with initial workshops generating and prioritising specific ideas and opportunities for the Project that have the potential to impact positively on NPV. A selection of specific opportunities were outlined to be studied in more detail over the following months, forming the basis of the VEE.

During the VEE phase, the project team continued its resource, geotechnical and hydro-geological drilling, metallurgical test work and all other associated port and mine site engineering and ESIA feasibility study work programmes as anticipated.

As part of the VEE, the pipeline transportation option was revisited to investigate several capex and opex optimisation possibilities as well as the fit with changing global iron ore market dynamics. The outcome of this review confirmed two viable transport options for the development of the Project:

1) Railway option
The original railway option assumes that on average 118Mtpa of ore will be treated through two processing plants to produce 30Mtpa of magnetite concentrate and 15Mtpa of Hematite sinter feed which will be transported to the port at Pointe-Noire via a 350-kilometre railway and exported from a new port facility 9 kilometres north of Pointe-Noire. Life of Mine ("LOM") will be in the region of 30 years, although the resource base and its upside potential will support either increased production or a longer LOM. The design, development plan and costs for the railway option have not changed materially since IPO.

FOB operating cost for the 45Mtpa rail option as estimated by the PFS work streams is US$25 per dry metric tonne including a US$2/tonne contingency. In addition, approximately US$3/tonne of potential savings were then identified by the VEE. This represents a significant saving compared with the blended FOB operating cost presented at IPO of US$27/tonne.

2) Pipeline option
The pipeline option assumes that 30Mtpa of pellet feed will be produced from an average 75Mtpa of combined hematite/magnetite ore. Treatment of ore will be through a single integrated processing plant. The pellet feed product will be transported via a slurry pipeline to the port site to the north of Pointe-Noire. LOM will be in excess of 30 years, although the resource base and its upside potential will support either increased production or a longer LOM.

The pipeline option has the potential to enhance the Project's value by significantly reducing both capital expenditure and operating costs.

FOB operating cost for the 30Mtpa slurry pipeline as estimated by the VEE is US$21 per dry metric tonne including a US$5/tonne contingency.

Pipeline PFS
Following the VEE results a Pipeline PFS was commenced to refine this option and its costing, which will assist in determining which option to take through to final FS and the scope of such study.

The Pipeline PFS is a major piece of work conducted in conjunction with a consortium of top-tier consultants based in France and Australia. The consortium, named ACTE, comprises EGIS (France based multi-national infrastructure engineering company with extensive experience in the Republic of Congo), Technip (France based multi-national engineering and construction company in the oil and gas, energy and mining industries), and Amec-Minproc (Australia based large international engineering company providing specialist iron ore processing and pipeline design).

Mineral resource and drilling programme

Mineral resource
The understanding of the Zanaga iron ore mineral resource has been greatly advanced during 2011 following a thorough drilling and metallurgical test work programme including the results of drilling completed to 26 August 2011. The large scale resource that has been defined has the potential to sustain a high production mine over the long-term with the ability to supply iron ore to the global market of a quality expected to be comparable to Brazilian supply. With only 25 kilometres of the known 47-kilometre strike length of magnetic mineralisation having been drilled to date, in calculating the mineral resource there remains significant potential upside to expand production and enhance value at the Project even beyond the extensive scale currently planned.

The scale and definition of the iron ore mineral resource has now expanded to 4.3Bt at 33% Fe with more than 62% of the resource in the "Measured" and "Indicated" JORC categories. The ratio of Measured, Indicated and Inferred Resources has improved to 3%:59%:38% respectively, representing a significant change from the previous estimate announced on 5 April 2011 of 0%:43%:57%.

Operations review
continued

All drilling conducted remains over only 25 kilometres of the known 47-kilometre strike length of magnetic mineralisation, leaving potential for future expansion of the resource size and potential flexibility to increase estimated annual production levels.

Mineral resource statement

Classification	Tonnes (Mt)	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	Mn (%)	LOI (%)
Measured	149	38.7	39.1	2.4	0.047	0.093	1.2
Indicated	2,540	34.1	43.6	2.8	0.050	0.112	1.0
Inferred	1,650	31	46	4	0.05	0.12	2
Total	4,339	33.0	44.3	3.3	0.049	0.114	1.3

Reported at a 0% Fe cut-off grade within an optimised Whittle shell representing a metal price of 130 USc/dmtu (dry metric tonne unit).

Source Mineral Resource Statement on inside back cover.

Left
Drilling in progress
Right
On-site sampling lab

Drilling programme

The updated JORC Mineral Resource is estimated on drilling completed on the Project up until 26 August 2011 and includes an additional 59,618 metres (88% increase) and 951 holes (45% increase) to drilling carried out for the previous resource statement announced on 5 April 2011. In addition, a total of 43,373 XRF analyses and 37,617 Niton analyses were used to model the Mineral Resource, more than twice the amount used in the previous Mineral Resource statement. Please see the table below for an update on drilling completed.

An ambitious and extensive resource drilling programme was conducted during 2011. ZIOC has been advised that an updated mineral resource statement is expected in Q3 2012.

The 2011 drill programme comprised 48,292 metres of Reverse Circulation ("RC") drilling and 46,822 metres of diamond drilling ("DD"). Three RC rigs were used from January to May 2011, reducing to two RC rigs until December 2011; and four DD rigs were used for the full year. In addition, hydrogeological drilling commenced in November 2011 and carried through to April 2012.

The table below summaries the total drilling completed to date on the Zanaga Project.

Drilling completed	Metres	Holes
At 30 Jun 2010 (IPO JORC resource of 3.3Bt)	42,706	468
30 Jun 2010 to 24 Nov 2010 (April JORC resource of 4.0Bt)	24,660	190
24 Nov 2010 to 26 August 2011 (October 2011 JORC resource of 4.3Bt)	59,618	293
26 August 2011 to 29 February 2012 (Not yet included in JORC resource)	47,768	246
Total to date	**174,752**	**1,197**

Above
On-site geological analysis

Top
Drilling in progress

Drilling completed to date

>174,000m

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 Project's exploration camp. Samples analysed using the Niton analyser and results show a very good correlation with external laboratory assays.

Using drill information combined with resistivity/magnetic data as well as structural observations a detailed geological and structural understanding of the deposit(s) continues to be established and is being used as the basis for mine planning and production forecasts.

FS forward work programme

The scope of the FS is to be determined by reference to the Railway PFS and the work done since Xstrata acquired majority control of Jumelles and the Project in February 2011. Such work includes the VEE (including Scope and Options Review) and the Pipeline PFS. The major components of the FS phase still to be undertaken include:

- engineering studies on, and costs of, the potential mine site, process plant, transport corridor, port, power and related infrastructure costs of the Project;
- finalisation of an ESIA study, in accordance with international standards and best practice;
- detailed product market study; and
- conclusion with the Government of the Republic of Congo of a Mining Convention (Convention d'Etablissement) to cover the appraisal and further development and exploitation phases of the Project.

Financial review

Above
Drilling in progress

Cash balance at year end

$45m

Results from operations

The financial statements contain the results for the Group's second full year of operations following its incorporation on 19 November 2009. The Group made a loss in the year of US$22.9m (2010: loss US$13.2m). The loss for the year comprised:

	2011 $000	2010 $000
General expenses	**(4,570)**	(2,755)
Net foreign exchange gain	**274**	(1,343)
Share-based payments	**(2,425)**	(964)
Share of loss of associate	**(7,803)**	(8,805)
Interest income	**173**	17
Loss before tax	**(14,351)**	(13,850)
Tax	**(28)**	-
Currency translation	**38**	-
Share of other comprehensive income of associate – foreign exchange	**(8,517)**	621
Total comprehensive income	**(22,858)**	(13,229)

General expenses of US$4.6m (2010: US$2.7m) consists of US$2.3m professional fees (2010: US$0.9m), US$0.5m Directors' fees (2010: US$0.3m) and US$1.8m (2010: US$0.8m) of other general operating expenses.

The foreign exchange gain of US$0.3m can be attributed to the impact of the strengthening of the US Dollar against UK Sterling during the year, mainly 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 financial statements.

The share of loss of associate reflected above relates to ZIOC's investment in Jumelles which generated a loss of US$1.3m in the year to 31 December 2011 (2010: US$6.2m), together with a charge of US$6.5m (2010: US$2.5m) made for equity accounting purposes for share options provided to employees of Jumelles.

During the year Jumelles spent US$87.8m on exploration, increasing its capitalised exploration assets to US$166.8m (2010: US$79.0m).

Financial Position

ZIOC's Net Asset Value (NAV) of US$227.2m (2010: US$241.2m) comprises of US$183.0m (2010: US$192.8m) investment in Jumelles, US$45.0m (2010: US$49.3m) of cash balances and US$0.8m (2010: US$0.9m) of net current liabilities.

	2011 $000	2010 $000
Investment in associate	**183.0**	192.8
Cash	**45.0**	49.3
Other net current liabilities	**(0.8)**	(0.9)
Net assets	**227.2**	241.2

Cost of investment

The investment in associate relates to the value of the investment in Jumelles which as at 31 December 2011 owned 100% of the Project. The carrying value of this investment has decreased by US$9.8m due to the US$16.3m loss made by Jumelles during the year net of US$6.5m 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 2011, Jumelles had aggregated assets of US$200.4m (2010: US$101.8m) and aggregated liabilities of US$37.5m (2010: US$30.8m). Assets consisted of US$166.8m (2010: US$79.0m) of capitalised exploration assets, US$12.7m (2010: US$13.6m) of other fixed assets and US$0.1m (2010: US$nil) of intangible assets. A total of US$87.8m (2010: US$56.1m) of exploration costs were capitalised during the year. Cash balances totalled US$10.5m (2010: US$5.0m).

Cash flow

Cash balances decreased by US$4.3m since 31 December 2010, net of interest income US$0.1m and foreign exchange gains of US$0.2m on bank balances held in UK Sterling. Operating activities utilised US$4.6m.

Fundraising activities

There were no fundraising activities during 2011 (2010: new shares were issued for cash of US$49.5m).

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 below. A more comprehensive summary of risks associated with ZIOC is set out in Part V of ZIOC's AIM Admission Document 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 principal business of ZIOC currently comprises managing ZIOC's interest in the Project, which is majority controlled by Xstrata at both a shareholder and Director level, and monitoring the development of the Project.

The successful development of the 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

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, subject to certain requirements, to complete the FS itself. However, 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.

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 JVCo and will receive the consideration proceeds from Xstrata for the ordinary shares in JVCo. There is no guarantee that the consideration paid by Xstrata will be in excess of the underlying value of ZIOC's ordinary shares.

Risks relating to future funding

In the event that Xstrata does not exercise this right to acquire ZIOC's interest in Jumelles and construction of the mine and related infrastructure proceeds, then ZIOC will have a number of future funding options including: (i) dilution at NPV (as defined in the JVA) during construction; or (ii) a right to fund ZIOC's pro rata equity share of construction capital expenditure. Should it be required, the ZIOC may seek to raise the required finance through any or a combination of debt, equity, the introduction of a new strategic partner and/or an off take agreement. However there is no certainty as to the Group's ability to raise the required finance or the terms on which such finance may be available. If ZIOC raises additional funds through further issuances of securities, the holders of ordinary shares could suffer significant dilution, and any new securities that ZIOC issues could have rights, preferences and privileges superior to those of the holders of the ordinary shares. Whilst ZIOC may choose to be diluted at NPV during construction, ZIOC's interest in the Project may be significantly diluted as a result.

Financial review
continued

Resource well defined in Measured and Indicated JORC categories

62%

Holes drilled

1,197

Risks relating to the strategic partner search

Xstrata and ZIOC are currently exploring whether there is a suitable strategic partner who can further enhance the long-term value of the Project. Accordingly Xstrata and ZIOC have embarked on a joint process, which is at an early stage, to identify a party to become a strategic partner in the development of the Project and there can be no certainty that this process will result in a transaction being completed.

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, some of the rights in the JVA such as the preferred right shall lapse if there is a change of control in respect of ZIOC and this could also act as an impediment to a takeover.

Given that Xstrata intends to fully retain its interest in the Project, it is likely to have a significant influence on the terms of the strategic partner process, including whether or not it wishes to exercise any rights in relation to a change of control of ZIOC and in agreeing any modifications to the terms of the JVA required by the prospective strategic partner.

Left
Zanaga Project airstrip

Right
Drill rigs in transit

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 and other infrastructure

The successful development of the Project depends on adequate infrastructure. The region in which the Project is located is sparsely populated and difficult to access. Central to the 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 a pipeline or other transportation for which permits, authorisations and land rights will be required and substantial finance will be required.

In relation to the proposed port and rail network or pipeline, 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 an early stage. Failure to complete the proposed rail network or pipeline and/or to establish the port or to do so in an economically viable manner could have a material adverse effect on the Project.

The availability of reliable and continuous delivery of sufficient quantity of power to the Project at an affordable price will also be a significant factor on the costs at which iron ore may be produced and so may impact on the attractiveness and viability of the Project.

Iron ore prices and undefined market and product

The principal business of the Project is the exploration for, and the planned exploitation of, iron ore. The ability to raise finance and the 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 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 Project are located entirely in the Republic of Congo. These operations will be exposed to various levels of political, regulatory, economic, taxation, environmental 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; changes in taxation; 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 Project's exploration licences

Subject to fulfilment of all related obligations and undertakings, the Project's exploration licences are renewable upon request for a further term of two years but the granting of the licences 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 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 10%. There is, therefore, a risk that the Government will seek to obtain a higher participation in the Project.

Corporate responsibility

Ensuring local communities and the Republic of Congo at large receive benefits from the ongoing development of the Project

Building local capacity and generating employment

Following the decision of Xstrata to exercise its First Call Option, the Project's approach to corporate responsibility is determined by Xstrata's Sustainable Development Framework. This comprises four elements (Business Principles, Sustainable Development Policy, Sustainable Development Standards and Assurance).

Location

Corporate responsibility

Following the decision of Xstrata to exercise its First Call Option in February 2011 Xstrata assumed management control of the Project and is obliged to fund the completion of a FS in accordance with international best practice standards and Xstrata internal guidelines. As a result the Project's approach to corporate responsibility is determined by Xstrata's Sustainable Development Framework. This section of the annual report records its key elements. It also illustrates how the Sustainable Development Framework is applied by the Project through the inclusion of case study examples that showcase its ongoing achievements in this important area. A full version of the Sustainable Development Framework is available within the sustainability section at Xstrata's website (www.xstrata.com).

Xstrata's Sustainable Development Framework, as adopted by the Project, comprises four elements:

Business Principles – the statement of business principles sets out the ethical framework for the Xstrata's activities and applies it to all of its operations. Xstrata recognises that its commitment to genuine partnerships with its stakeholders requires that it works ethically, responsibly, openly, together and with others.

Sustainable Development Policy – Xstrata is committed to the goal of sustainable development. It complies in full with the laws and regulations in the countries where it operates. It conducts regular internal and external audits of its businesses and operations to assure compliance with its business principles, policies and standards. Xstrata aims to:

- operate a safe, injury and fatality free workplace and to enhance the well-being of employees, contractors and communities;
- preserve the environments affected by its operations;
- contribute to the social and economic development of sustainable communities associated with its business; and
- maintain a healthy and safe workplace that is based on mutual respect, fairness and integrity.

Left
Water quality testing
Right
Drilling in progress

Sustainable Development Standards – Xstrata applies 17 sustainable development standards along with its policies and these underpin all of its business operations.

Assurance – Xstrata's sustainability and risk assurance processes provide management with confirmation that its business principles, policies and standards are being met and that material risks are being identified and managed effectively. The assurance programme features external third-party audits supplemented by more frequent internal management and risk focused audits.

Corporate responsibility continued

Case study 1

Co-operatives to improve food security and stimulate the local economy

The Project's activities have significantly affected the local economy in the areas where work is being carried out. In particular, the presence of its salaried employees in local villages has stimulated the local economy and led to local rises in prices. There has also been an increase in the local population as people have entered or returned to the area to seek employment opportunities and to benefit from the increased economic activity. One effect of this increase in the local population was the creation of potential food security issues for the wider population which the Project has a responsibility to address. The Project's management team has also sought to avoid the creation of a dependency culture concerning its activities.

The primary short-term objective is, therefore, to secure food for local community consumption and to provide the basis for subsequent development.

The Project's community relations team has spent a considerable amount of time in creating long-term sustainable activities to address these issues. One example of this is identifying and supporting the development of a number of women's cooperatives in the eight villages that are located close to the Project's planned mine site. Subsequent work has involved working with local NGOs to support the development of agricultural capacity within the cooperatives. In the longer term the team will seek to support transition of these cooperatives to commercial businesses that may, for instance, supply future project accommodation villages

Above
Pineapple plantation initiative.

Case study 2

Protecting the environment and biodiversity

The Project's planned mine is located in an area which is of ecological interest. In order to ensure that its effects on the local environment are addressed sensitively, comprehensive research exercises have been conducted with knowledgeable, supportive and distinguished partners. After careful consideration and discussion with both organisations, it commissioned the assistance of the Royal Botanical Gardens ("Kew Gardens") in London and the Republic of Congo based team from Wildlife Conservation Society ("WCS"). Kew Gardens is a renowned botanical research and education institution with around 700 employees. WCS was founded over 100 years ago and works on over 500 projects in 60 countries around the world. The organisation works to protect wildlife and the places in which they live.

Kew Gardens and WCS have conducted flora and fauna baseline studies for the project in order to support its Environmental Impact Assessment and the planning of future activity. The Project's management team felt that it was important to share this information with the country's authorities to support the development of an improved scientific database. This will also provide an opportunity and resources for leading scientists to study a part of the central African tropics that has been little studied in recent decades, with a dearth of reliable scientific data.

The Project also plans to build a port on the Congolese coastline in an area which is adjacent to a known turtle breeding ground. As part of the Environmental Impact Assessment process, it has been working with a small Congolese NGO called Renatura that is focused on turtle protection, development and conservation.

Above
Continued rehabilitation of drilling platforms

Above
Safety talk on the "10 Golden Rules"

Case study 3

Health and safety systems development

Following the acquisition of a controlling stake by Xstrata in February 2011, the Project adopted safety initiatives aligned with Xstrata's systems and processes. 10 health and safety "golden rules" have been jointly developed by the Project and Xstrata as part of a participatory risk identification process involving the Project's workforce.

Xstrata has a series of health and safety protocols which are based on the Company's analysis of fatal and potentially fatal incidents and accidents in the mining industry over a number of years. These have been incorporated in the Project's management procedures, with associated training being rolled out to ensure all of the Project workforce understands and has adopted the first class health and safety procedures implemented by Xstrata.

Board of Directors

01 Clifford Thomas Elphick
Non-Executive Chairman
51 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.

02 Colin John Harris
Non-Executive Director
65 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 and Sierra Leone and more importantly between 1998 and 2008 heading up the team evaluating the world-class Simandou iron ore project in the Republic of Guinea. Mr Harris resigned from Rio Tinto in 2008 and joined the Zanaga team later in the year as Project Director. Mr Harris stepped down as Project Director of the Project after Xstrata exercised its First Call Option. Mr Harris is also a non-executive director of AIM listed Ncondezi Coal Company Limited and AIM and Oslo AXESS listed London Mining plc.

03 Clinton James Dines
Non-Executive Director
54 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.

04 Michael John Haworth
Non-Executive Director
46 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.

05 Dave John Elzas
Non-Executive Director
45 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.

01

02

03

04

05

Directors' report

The Directors whose names appear on page 26 were members of the Board at the time of approving the Directors' Report and hereby present their 2011 Annual Report to the shareholders of Zanaga Iron Ore Company Limited, together with the full financial statements for the year ended 31 December 2011.

Status and activities

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

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. Proceeds of US$100 million (£62.1 million) were raised through the placing of 39,815,258 ordinary shares at 156 pence each (the "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 certain of the then existing shareholders. The Company therefore received gross proceeds of US$50 million and selling shareholders received gross proceeds of US$50 million.

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

Following the exercise by Xstrata of its First Call Option the Company retains a 50% less one share interest in the 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 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

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 43 to 54 of this Annual Report.

A PFS pipeline option report is expected in June 2012 and the scope of the FS (including the remaining FS work programmes) are expected to be approved during 2012.

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 2 to 19.

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 17 to 19 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 (2010: US$nil).

Going concern

Following Xstrata's exercise of its First Call Option, and implementation of the JVA, Xstrata is obliged to fund the costs of a FS in accordance with international best practice and Xstrata's internal guidelines. Xstrata must use reasonable efforts to deliver the FS no later than three months prior to the expiration of the licences in May 2014 (assuming a second extension of the Project exploration licences anticipated in Q3 2012) or any subsequent renewal, subject to there being no material adverse change. Under the Republic of Congo Mining code, after its initial three-year period, an exploration licence is permitted two extensions of two years, each of which are renewable upon request. The application for the second extension of the Zanaga exploration licences was submitted in March 2012. The cost of the Company's personnel and the technical experts appointed to monitor the Company's investment in the Project are the only significant 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, Dave Elzas, Colin Harris and Clinton Dines who served as Directors throughout 2011.

Biographical details of the Directors and the period of each directorship are shown on page 26.

Details of Board meetings and Directors' attendance at Board meetings are laid out on page 31.

The Directors' interests in the ordinary shares of the Company as at 31 December 2011 and the date of signing this Annual Report are set out on page 34 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 33 to 36.

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 UK Corporate Governance Code 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 30 to 32.

Corporate 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 responsibility can be found on pages 22 to 25.

Substantial share interests

As at 30 April 2012, 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]	23,052,954	8.22%
F & C Asset Management Plc	16,543,049	5.90%
TT International	9,680,115	3.45%

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 43 and 44 for more details), Liberum Capital Limited, which acts as Nominated Adviser and Joint Corporate Broker, Citigroup Global Markets Limited which acts as Joint Corporate Broker, Computershare Investor Services (BVI) Limited, which acts as Registrar and Hyposwiss Private Bank Geneve 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 reappointing 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 Group; 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.

Annual General Meeting

Notice of the Company's Annual General Meeting convened for 26 July 2012 at 9.30a.m. is set out on pages 55 and 56 of this report. Explanatory notes giving further information about the proposed resolutions are set out on pages 58 and 59.

By order of the Board

Mr Clifford Elphick
Non-Executive Director and 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
27 June 2012

Corporate governance report

The Directors recognise the importance of sound corporate governance and the guidelines set out in the Financial Reporting Council's UK Corporate Governance Code (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 2011, the Board was led by a Non-Executive Chairman, Clifford Elphick. The Board consisted of five Directors at year end, four of whom were Non-Executive Directors for the duration of the year. Following the exercise by Xstrata of its First Call Option in February 2011 and taking management control of the Project, Mr Harris no longer serves as an Executive Director of the Project or the Company and he now serves as a Non-Executive Director for ZIOC. All directors 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	51	Non-Executive Chairman	26 November 2009
Michael John Haworth	British	46	Non-Executive Director	26 November 2009
Dave John Elzas	Dutch	45	Non-Executive Director	19 November 2009
Colin John Harris[1]	British	65	Non-Executive Director	12 November 2010
Clinton James Dines	Australian	54	Non-Executive Director	12 November 2010

1. Following exercise by Xstrata of its First Call Option in February 2011 and taking management control of the Project, Mr Harris no longer serves as an Executive Director for the Project or the Company. 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 page 26.

Under the Code, none of the Non-Executive Directors that served during the 2011 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 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 reviews 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, one third of Directors are subject to retirement at each AGM 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, Clifford Thomas Elphick and Michael John Haworth will retire and stand for re-election at the 2012 AGM.

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 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 61). 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, seven Board meetings were held. The table below details the number of Board meetings attended by each Director.

	Total	Board meetings	Sub-committee meetings
Clifford Thomas Elphick	9/9	7/7	2/2
Michael John Haworth	8/9	7/7	1/2
Dave John Elzas	8/9	7/7	1/2
Colin John Harris	6/9	5/7	1/2
Clinton James Dines	8/9	7/7	1/2

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.

Boardroom diversity

The Directors note the changes to the Code which are due to come into effect later in 2012 for reporting periods commencing on or after 1 October. The Company plans to assess its approach to this matter in due course in conjunction with its advisors.

Directors' shareholdings

The interests of the Directors in the share capital of the Company are disclosed in the Directors' Remuneration Report on page 34.

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 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 continue to 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 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.

Three meetings were held in the year to 31 December 2011. 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 2011 are set out in the Remuneration Report on page 34.

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 continue to 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 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 Auditors, including approval of their remuneration and terms of engagement. The Audit Committee shall make recommendations regarding the appointment, reappointment 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 consider this again following publication of the 2011 Annual Report and will keep this under ongoing review.

The Audit Committee met with the Company's Auditors in June 2012. The Audit Committee also has direct access to the Company's Auditors as necessary at other times and the opportunity to meet the Auditors without management being present.

The Company's Auditors are permitted to provide non-audit services that are not in conflict with Company's Auditor's 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 Company's Auditor, KPMG Audit Plc, for audit services during the year were US$93,000. KPMG Audit Plc did not perform any non-audit services.

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 advisors in the terms of their contracts.
- The Board reviews financial information produced by the administrator on a regular basis.
- 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 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. Since Xstrata exercised its First Call Option in February 2011 the Jumelles group is included in the Xstrata internal audit programme.

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 continue to 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. The Audit Committee did not conduct a formal risk assessment during the financial year but has committed to do so before 31 December 2012. 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 17 to 19.

Remuneration Committee
The composition, activities and role of the Remuneration Committee is set out in more detail in the Remuneration Report on page 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 Xstrata's exercise of its First Call Option, the Company does not control the 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 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 AGM during which the members of the Board, the Nominated Advisor and Joint Brokers will be available to discuss issues affecting the Company. The Board stays abreast of shareholders' views via regular updates from the Nominated Advisor and its Brokers as to meetings it may have held with shareholders.

Remuneration report

This report to shareholders for the year ended 31 December 2011 sets out the policies under which Executive and Non-Executive Directors are remunerated.

Whilst not applicable to the Company, as required by the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations") and the UK Listing Authority Rules, as a matter of best practice 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 Code.

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 reviews the performance of senior management, sets their remuneration, and considers and determines the Company's bonus and option schemes and payments or grants thereunder.

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

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

The Remuneration Committee meets at least twice a year.

Other Directors and external advisors may be invited by a majority of the members of the Remuneration Committee to attend all, or part of any meeting.

The terms of reference for the Remuneration Committee, which are reviewed annually, 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;
- review the ongoing appropriateness and relevance of the remuneration policy;
- 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, Berwin Leighton Paisner LLP, an independent law firm.

Service contracts and notice periods

The Board consisted of five Directors at year end, all of whom were Non-Executive Directors at that time and four of whom were Non-Executive Directors for the duration of the year. Following the exercise by Xstrata of its First Call Option in February 2011 and taking management control of the Project, Mr Harris no longer serves as an Executive Director of the Project or the Company and he now serves as a Non-Executive Director of ZIOC. All of the Directors held office for the duration of the complete year. Further details of the Directors and length of directorships are reflected in the table set out on page 30 above of the Corporate Governance section of this Report.

Michael Haworth and Colin Harris provide consultancy services to the Company.

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

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

Non-Executive Directors' remuneration package

The Non-Executive 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 its shareholders determine.

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[1]	75.0	–	4.0	4.0	83.0
Clinton Dines[2]	50.0	–	7.5	–	57.5
Michael Haworth	50.0	5.0	–	4.0	59.0
Colin Harris	50.0	–	4.0	–	54.0
Dave Elzas[3]	50.0	10.0	–	7.5	67.5

1. Chairman of Board of Directors.
2. Chairman of HSSE Committee.
3. 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:

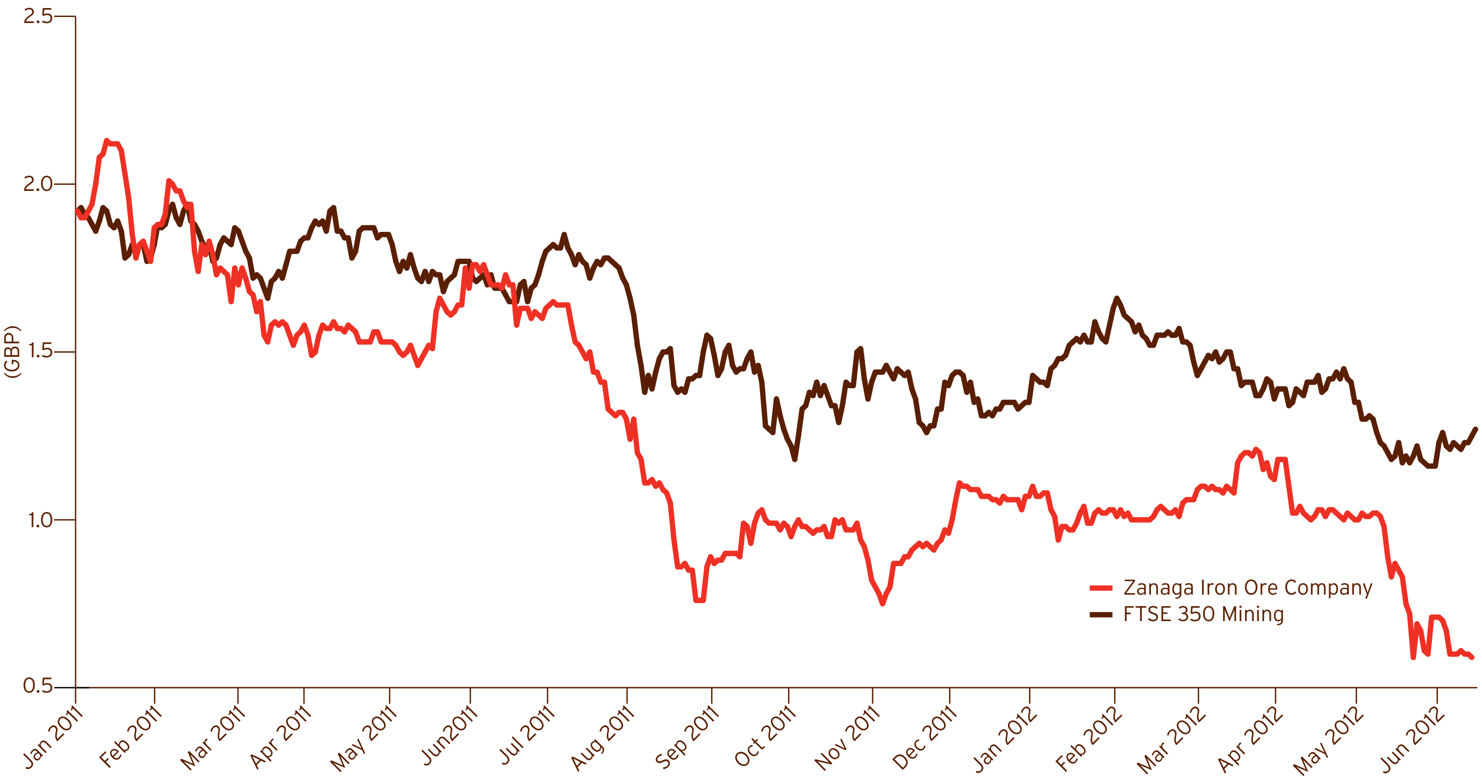
	31 December 2011		31 December 2010	
Directors	**Number of shares**	**% of issued share capital**	Number of shares	% of issued share capital
Clifford Elphick[1]	**88,730,397**	**31.64**	88,730,397	31.64
Michael Haworth[2]	**115,671,186**	**41.25**	115,671,186	41.25
Dave Elzas	**199,076**	**0.07%**	–	–
Colin Harris	**2,388,915**	**0.85%**	–	–
Clinton Dines	**398,153**	**0.14%**	–	–

1. 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.
2. 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.

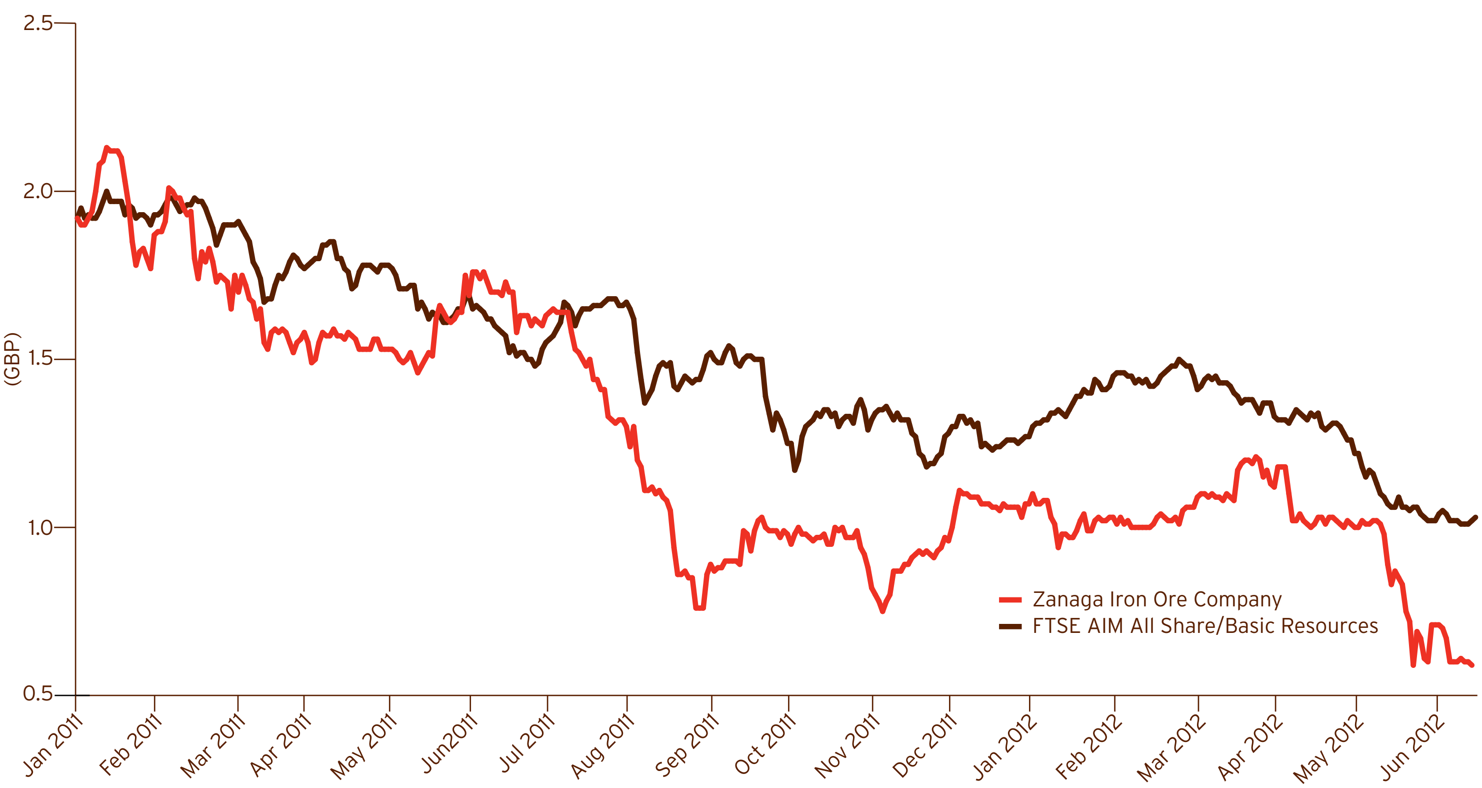
There have been no changes in the Directors' interest in shares between 31 December 2011 and 27 June 2012.

Share price performance graph

Zanaga Iron Ore Company Limited versus FTSE 350 Mining (rebased to ZIOC share price)



Zanaga Iron Ore Company Limited versus FTSE AIM All Share/Basic Resources (rebased to ZIOC share price)



Remuneration for the year to 31 December 2011

The emoluments for the Directors for the year to 31 December 2011 can be found below:

Director	Director fee 2011 £000	Other emoluments 2011 £000	Total emoluments 2011 £000	Total emoluments 2010 £000
Colin Harris[1]	**54.0**	-	**54.0**	168.3
Clifford Elphick	**83.0**	-	**83.0**	9.9
Clinton Dines	**57.5**	-	**57.5**	6.9
Michael Haworth[2]	**59.0**	-	**59.0**	7.0
Dave Elzas	**67.5**	-	**67.5**	8.1
Total in £	**321.0**	-	**321.0**	200.2
	$000	**$000**	**$000**	$000
Total in US$	**514.0**	-	**514.0**	309.3

1 Colin Harris held office as a Director at Jumelles Technical Services Limited (a subsidiary within the Jumelles Group) and managed the Project until February 2011 and, during 2011, received £194,000 (US$311,000) in respect of those roles and the cessation thereof. Harris GeoConsult Ltd, a company in which Colin Harris has a controlling interest, was paid a total of £131,000 (US$205,000) for consultancy services provided by Colin Harris during 2011.

2 Strata Capital UK LLP, a limited liability partnership in which Michael Haworth has a significant interest, was paid a total of £104,000 (US$162,000) for consultancy services provided by Michael Haworth during 2011.

LTIP

At its Admission the Company approved and implemented a 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 2011	Highest and lowest market price in year	Expiry date	Number vested at 31 December 2011	Vesting criteria
Colin Harris	1,990,763	£0.0234	**£1.07**	£0.745–£2.13	18 May 2021	**1,990,763**	1 (see below)
Colin Harris	398,152	£0.0234	**£1.07**	£0.745–£2.13	18 May 2021	**265,435**	2 (see below)
Clinton Dines	398,153	£0.0234	**£1.07**	£0.745–£2.13	18 May 2021	**265,435**	2 (see below)
Dave Elzas	199,076	£0.0234	**£1.07**	£0.745–£2.13	18 May 2021	**132,717**	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; or
(ii) the completion of the PFS to the satisfaction of the Board.

During the year, the Remuneration Committee modified the terms of the Award. The condition relating to completion of the PFS was amended so that the vesting criteria be the publication of the results of the VEE.

The VEE was completed during the year, therefore these options have now vested.

Vesting criteria 2

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

All of the options were outstanding at the beginning of the year. The Directors have not exercised any options during the year (2010: US$nil).

The total charge to the profit and loss account for the awards made to the Directors in the year to 31 December 2011 was US$2,268,000 (2010: US$941,000). Further details of the LTIP can be found in Note 11 to the Financial Statements on page 50.

By order of the Board

Dave Elzas
Chairman
Remuneration Committee
27 June 2012

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 2011 in accordance with the AIM Rules for Companies (the "AIM Rules"). Under the AIM Rules they are required to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU. Under the AIM Rules the Directors must not approve the financial statements unless they are satisfied that they give a true and 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 which can be found on page 33.

Independent Auditor's report

Independent Auditor's report to the Members of Zanaga Iron Ore Company Limited

We have audited the group financial statements of Zanaga Iron Ore Company Limited for the year ended 31 December 2011, comprising the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated 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 37, 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 25 June 2012 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 Group's affairs as at 31 December 2011 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
15 Canada Square
London E14 5GL
27 June 2012

Consolidated statement of comprehensive Income

for year ended 31 December 2011

	Note	2011 $000	2010 $000
Administrative expenses		**(6,721)**	(5,062)
Share of loss of associate		**(7,803)**	(8,805)
Operating loss	4	**(14,524)**	(13,867)
Interest income		**173**	17
Loss before tax		**(14,351)**	(13,850)
Taxation	5	**(28)**	-
Loss for the year		**(14,379)**	(13,850)
Foreign exchange translation – foreign operations		**38**	-
Share of other comprehensive income of associate – foreign exchange translation		**(8,517)**	621
Other comprehensive income		**(8,479)**	621
Total comprehensive loss		**(22,858)**	(13,229)
Loss per share (basic and diluted) (Cents)	12	**(5.2)**	(5.4)

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

Consolidated statement of changes in equity

for year ended 31 December 2011

	Share capital $000	Retained earnings $000	Foreign currency translation reserve $000	Total equity $000
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 at 1 January 2011	**256,070**	**(15,422)**	**536**	**241,184**
Consideration for share-based payments – other services	**8,923**	**–**	**–**	**8,923**
Loss for the period	**–**	**(14,379)**	**–**	**(14,379)**
Other comprehensive income	**–**	**–**	**(8,479)**	**(8,479)**
Total comprehensive loss	**–**	**(14,379)**	**(8,479)**	**(22,858)**
Balance at 31 December 2011	**264,993**	**(29,801)**	**(7,943)**	**227,249**

Consolidated balance sheet

for year ended 31 December 2011

	Note	2011 $000	2010 $000
Non-current assets			
Property, plant and equipment	6a	**13**	-
Investment in associate	6b	**182,977**	192,799
		182,990	192,799
Current assets			
Other receivables	7	**104**	80
Cash and cash equivalents	8	**45,047**	49,318
		45,151	49,398
Total Assets		**228,141**	242,197
Current liabilities			
Trade and other payables	9	**(892)**	(1,013)
Net assets		**227,249**	241,184
Equity attributable to equity holders of the parent			
Share capital	10	**264,993**	256,070
Retained earnings		**(29,801)**	(15,422)
Foreign currency translation reserve		**(7,943)**	536
Total equity		**227,249**	241,184

These financial statements set out on pages 39 to 54 were approved by the Board of Directors on 27 June 2012 and were signed on its behalf by:

Mr M Haworth
Director

Mr C Elphick
Director

Consolidated cash flow statement

for year ended 31 December 2011

	Note	2011 $000	2010 $000
Cash flows from operating activities			
Total comprehensive loss for the period		**(22,858)**	(13,229)
Adjustments for:			
Depreciation		**3**	-
Interest received		**(173)**	(17)
Taxation expense		**28**	-
Increase in other receivables		**(24)**	(69)
(Decrease)/Increase in trade and other payables		**(65)**	532
Net exchange loss		**(274)**	1,343
Share of loss of associate		**16,320**	8,184
Share-based payments		**2,425**	964
Net cash from operating activities		**(4,618)**	(2,292)
Cash flows from investing activities			
Proceeds from the issue of share capital		**-**	49,507
Share issue costs		**-**	(4,912)
Net cash from financing activities		**-**	44,595
Cash flows from investing activities			
Interest received		**173**	17
Acquisition of property, plant and equipment		**(16)**	-
Net cash from investing activities		**157**	17
Net (decrease)/increase in cash and cash equivalents		**(4,461)**	42,320
Cash and cash equivalents at beginning of period		**49,318**	8,106
Effect of exchange rate difference		**190**	(1,108)
Cash and cash equivalents at end of period	8	**45,047**	49,318

The notes on pages 43 to 54 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 Call Option (as defined below).

On 14 March 2011 the Company incorporated and acquired the entire share capital of Zanaga UK Services Limited for US$2, a company registered in England and Wales which provides investor management and administration services.

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 (the "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 and 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 ("Majority Stake") in return for providing funding towards ongoing exploration of the Zanaga exploration licence area and a pre-feasibility study (the "PFS") subject to a minimum amount of US$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 Project (the "FS") (provided such amount shall be greater than US$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 US$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 programme, budget and funding amount (up to US$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 Projects.

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

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

The Company, Jumelles and Xstrata Projects agreed to regulate their respective rights in relation to the 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 Project, and going forward the Company has a strategic partnership in respect of the 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 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 Projects, at an agreed cash price or price based on net present value, for a period of 90 days following completion of the FS. Therefore Xstrata Projects could elect to acquire 100% of the 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 the Company'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, and implementation of the joint venture agreement, Xstrata Projects is obliged to fund the costs of a FS in accordance with international best practice and Xstrata Projects' internal guidelines. Xstrata Projects must use reasonable efforts to deliver the FS no later than three months prior to the expiration of the licences in May 2014 (assuming a second extension of the Project exploration licences anticipated in Q3 2012) or any subsequent renewal, subject to there being no material adverse change. Under the Republic of Congo Mining Code, after its initial three-year period, an exploration licence is permitted two extensions of two years, each of which are renewable upon request. The application for the second extension of the Zanaga exploration licences was submitted in March 2012. The cost of the Company's personnel and the technical experts appointed to monitor the Company's investment in the Project are the only significant 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 financial statements consolidate those of the Company and its subsidiary Zanaga UK Services Limited (together, the "Group") and the Company's investment in an associate which is accounted for using the equity method.

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 1 (Amended) – Presentation of items of Other Comprehensive Income
- IFRS 10 – Consolidated Financial Statements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement

These standards have not been applied in preparing the financial statements for the year ended 31 December 2011.

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 Group'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.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

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 Group's share of the net assets of the associate. The Group profit or loss and other comprehensive income includes the Group's share of the associate's profit or loss and other comprehensive income. The investment is considered for impairment annually.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from the intra-group transactions, are eliminated in preparing the financial statements.

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 Group 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 Group 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 Group's associate and similar persons, the equity-settled share-based payment is recognised by the Group as an increase in the cost of the investment with a corresponding increase in equity over the vesting period of the award. In equity accounting for the Group's share of its associate, the Group has accounted for the cost of equity settled share-based payments as if it were a subsidiary.

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.

2 Accounting policies *continued*

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 Group'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.

Calculation of recoverable amount

The recoverable amount of the Group'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 Group has one operating segment, being its investment in the 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 Group'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 Group makes estimates and assumption 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 Group's investment in Jumelles depends very largely on the value of Jumelles' interest in the 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 Group's interest in Jumelles. Though the exercise of the Xstrata Call Option on 11 February 2011 gave Xstrata Projects a shareholding of 50% plus one share, and then effective director level control of Jumelles, those shares are not considered to vest until provision of the services relating to the PFS and FS has been completed. Accordingly, the Group will continue to account for a 100% interest in Jumelles until the FS has been completed. Further details may be found under 'Investment in associate' Note 6b.

4 Note to the comprehensive income statement

Operating loss before tax is stated after charging:

	2011 $000	2010 $000
Share-based payments (see Note 11)	**2,425**	964
Net foreign exchange (gain)/loss	**(274)**	1,343
Directors' fees	**514**	309
Auditor's remuneration	**93**	39
Depreciation	**3**	–

Other than the Company Directors, the Group directly employed three staff in 2011 (2010: Nil). The Directors received US$514,000 remuneration for their services as Directors of the Group (2010: US$309,000). The amounts paid as Directors' fees are shown in the Directors' Remuneration Report on page 34. The Directors' interests in the share capital of the Group are shown in the Directors' Remuneration Report on page 34.

5 Taxation

The Group is exempt from most forms of taxation in the BVI, provided the Group 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 tax charge in the period relates to the Company's subsidiary, Zanaga UK Services Limited.

	2011 $000	2010 $000
Recognised in other comprehensive income:		
Current year	**(28)**	–
Reconciliation of effective tax rate		
Loss before tax	**(14,351)**	(13,850)
Income tax using the BVI corporation tax rate of 0% (2010: 0%)	**-**	–
Effect of tax rate in foreign jurisdictions	**(28)**	–
	(28)	–

The effective tax rate for the Group is 0.2% (2010: nil%).

6a Property, Plant and Equipment

	Fixtures and fittings $000
Cost	
Balance at 1 January 2011	–
Additions	16
Balance at 31 December 2011	16
Depreciation	
Balance at 1 January 2011	–
Charge for period	3
Balance at 31st December 2011	3
Net book value	
Balance at 31 December 2011	13
Balance at 31st December 2010	–

There are no assets held under finance leases or hire purchase contracts.

6b Investment in associate

	$000
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
Balance at 1 January 2011	192,799
Additions	6,498
Share of post-acquisition comprehensive income	(16,320)
Balance at 31 December 2011	**182,977**

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 additions to the investment during 2010 and 2011 are due to the Group granting awards under the LTIP to employees of Jumelles (as set out in Note 11).

Since its acquisition and up to 11 February 2011, the investment in Jumelles did 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 Projects potential voting rights which would have been sufficient for Xstrata Projects to control Jumelles. Following exercise of the Xstrata Call Option, the residual rights retained by the Group are sufficient in the view of the Directors to provide the Group with the power to participate significantly in the financial and operating decisions affecting Jumelles. As a consequence the Group's interest is accounted for as an associate using the equity method of accounting.

As explained in Note 1, on 11 February 2011, Xstrata Projects exercised the Xstrata 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 Projects. 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 Group will continue to account for a 100% interest in Jumelles Limited until the FS has been completed. Only at that time will the Group account for a reduction in its interest in Jumelles.

The Group financial statements account for the Xstrata Projects transaction as an in-substance equity-settled share-based payment for the provision of services by Xstrata Projects 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.

6b Investment in associate *continued*

As at 31 December 2011, Jumelles had aggregated assets of US$200,396,000 (2010: US$101,783,000) and aggregated liabilities of US$37,461,000 (2010: US$30,846,000). For the year ended 31 December 2011 Jumelles incurred net administrative expenses of US$1,305,000 (2010: US$5,992,000) and incurred a tax charge of US$Nil (2010: US$269,000). A summarised consolidated balance sheet of Jumelles Limited for the year ended 31 December 2011, including adjustments made for equity accounting, is included below:

	2011 $000	2010 $000
Non-current Assets		
Property, plant and equipment	**12,704**	13,623
Exploration and other evaluation assets	**166,815**	78,954
Intangible Assets	**145**	-
	179,664	92,577
Current Assets	**20,732**	9,206
Current Liabilities	**(37,461)**	(30,846)
Net current liabilities	**(16,729)**	(21,640)
Net assets	**162,935**	70,937
Share Capital	**9,561**	3,063
Share option reserve	**190,738**	88,918
Translation reserve	**(8,569)**	(52)
Retained earnings	**(28,795)**	(20,992)
	162,935	70,937

7 Other receivables

	2011 $000	2010 $000
Prepayments	**104**	80

8 Cash

	2011 $000	2010 $000
Cash and cash equivalents	**45,047**	49,318

9 Trade and other payables

	2011 $000	2010 $000
Accounts payable	**780**	677
Amounts payable to the Jumelles Limited group	**85**	336
UK Corporation Tax	**27**	-
	892	1,013

Amounts payable to the Jumelles Limited group comprise of US$64,000 payable to Jumelles (2010: US$298,000) and US$21,000 payable to Jumelles Technical Services (UK) Limited (2010:US$38,000). No amounts payable are due in more than 12 months (2010: US$nil).

10 Share capital

In thousands of shares	Ordinary shares
On issue at 1 January 2010 – 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
On issue at 31 December 2011 – 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 (2010: US$nil).

10 Share capital *continued*

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 US$49,507,000 and are disclosed net of issue costs of US$5,393,000.

Under a deed of warrant dated 17 November 2010 the Company granted to Liberum Capital Limited, the Company's Nominated Advisor and Joint Corporate 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 was not exercised and subsequently lapsed on 18 November 2011. US$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.

Share capital changes in 2011

There have been no share capital changes in 2011.

11 Share-based payments

Employees

As stated under Note 2 above the Group has implemented a LTIP in order to recruit and retain key officers and employees of the Group and the Group'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 forfeit's 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 Group 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 Projects or expiry or termination of the Xstrata Call Option to acquire its Majority Stake in Jumelles; or
- 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.

During the year, the Remuneration Committee modified the terms of Award 1. The condition relating to completion of the PFS was amended so that the vesting criteria be the publication of the results of the VEE.

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 2010:

	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 1 January 2010	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 31 December 2010	£0.02 (US$0.03)	4,260,235	£0.02 (US$0.04)	995,382	£1.58 (US$2.45)	199,076	£0.08 (US$0.12)	5,454,693
At 1 January 2011	£0.02 (US$0.03)	4,260,235	£0.02 (US$0.04)	995,382	£1.58 (US$2.45)	199,076	£0.08 (US$0.12)	5,454,693
Granted	N/A	Nil	N/A	Nil	N/A	Nil	N/A	Nil
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 31 December 2011	£0.02 (US$0.03)	4,260,235	£0.02 (US$0.04)	995,382	£1.58 (US$2.45)	199,076	£0.08 (US$0.12)	5,454,693

	Award 1	Award 2	Award 3	Total
Range of exercise prices (£ and US$*)	£0.00–£0.02 (US$0.00–US$0.03)	£0.02 (US$0.04)	£1.58 (US$2.45)	£0.00 - £1.58 (US$0.00-US$2.45)
Weighted average share price at date of exercise (£)	N/A	N/A	N/A	N/A
Total share awards vested (No.)	4,260,235	663,588	199,076	5,122,899
Weighted average fair value of share awards granted in the period (£ and US$*)	Nil	Nil	Nil	Nil
Weighted average remaining contractual life (days)	Nil	323 days	323 days	Nil

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

It is currently expected that awards will vest in full.

11 Share-based payments *continued*

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 US$*)	£1.56 (US$2.43)	£1.56 (US$2.43)	£1.56 (US$2.43)	£1.56 (US$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 US$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.

Non-employees

The Company has also granted an award of share options in respect of consultancy services provided by Strata Capital UK LLP on 17 November 2010. The options have a weighted average price of £1.56 (US$2.41), a weighted average fair value of £0.39 (US$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 year was US$2,425,000 (2010: US$964,000), of which US$2,268,000 (2010: US$941,000) related to the Directors and US$157,000 (2010: US$23,000) related to consultancy services provided by Strata Capital UK LLP. Further details of share-based payments awarded to Directors of the Group can be found in the Remuneration Report on page 34.

The total charge during the year for equity-settled share-based payments awarded to employees of companies in which the Group has a significant interest totals US$6,498,000 (2010: US$2,544,000) and has been added to the cost of investment in those companies

12 Loss per share

	2011	2010
Loss (Basic and diluted) (US$,000)	**(14,379)**	(13,850)
Weighted average number of shares (thousands)		
Basic		
Issued shares at beginning of period	**280,416**	101,974
Effect of shares issued	**–**	33,788
Effect of share repurchase	**–**	–
Effect of own shares	**(5,574)**	(657)
Effect of share split	**–**	122,229
Weighted average number of shares at 31 December – basic	**274,842**	257,334
Loss per share (Cents)		
Basic and diluted	**5.2**	5.4

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 Group'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 Group seeks to minimise potential adverse effects of these risks on the Group's financial performance. The Board has overall responsibility for managing the risks and the framework for monitoring and coordinating these risks. The Group's financial risk management policies are set out below:

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group receivables related parties. The Group 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:

	2011 $000	2010 $000
Cash and cash equivalents	**45,047**	49,318

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. The Group 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 Group's financial position. The Group 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 2011 the foreign currency denominated assets include cash balances held in sterling of US$38,746,000 (2010: US$42,861,000), other receivables denominated in sterling of US$102,000 (2010: US$77,000), and accounts payable of US$768,000 (2010: US$599,000) denominated in sterling.

The following significant exchange rates applied during the year:

	Average rate 2011	**Reporting date spot rate 2011**	Average rate 2010	Reporting date spot rate 2010
Against US Dollars	**US$**	**US$**	US$	US$
Pounds Sterling	**1.604**	**1.554**	1.546	1.547

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 2011 $000	**Profit or loss 2011 $000**	Equity 2010 $000	Profit or loss 2010 $000
Pounds sterling	**(3,814)**	**(3,814)**	(4,346)	(4,346)

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.

13 Financial instruments *continued*

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 Group Employee Benefit Trust buys the shares in the Company to be issued under the LTIP.

14 Commitments

The Group had no capital commitments or off-balance sheet arrangements at 31 December 2011 (31 December 2010: nil).

15 Related parties

The Group's relationships with Jumelles and Xstrata are described in Note 1 above.

The following transactions occurred with related parties during the period:

	Transactions for the period		Closing balance	
	2011 $000	2010 $000	**2011 $000**	2010 $000
Intercompany payable Jumelles Limited	**234**	298	**64**	298
Intercompany payable Jumelles Technical Services UK Limited	**(17)**	38	**21**	38
Strata Capital UK LLP	**52**	57	**5**	57

In addition to the transactions above, the Group 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

	2011 $000	2010 $000
Share-based payments	**2,268**	964
Directors' fees *	**514**	309
Total	**2,782**	1,273

* Colin Harris held office as a Director at Jumelles Technical Services Limited (a subsidiary within the Jumelles Group) and managed the Project until February 2011 and, during 2011, received £194,000 (US$311,000) in respect of those roles and the cessation thereof.
Harris GeoConsult Ltd, a company in which Colin Harris has a controlling interest, was paid a total of £131,000 (US$205,000) for consultancy services provided by Colin Harris during 2011.
Strata Capital UK LLP, a limited liability partnership in which Michael Haworth has a significant interest, was paid a total of £104,000 (US$162,000) for consultancy services provided by Michael Haworth during 2011.

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT this year's Annual General Meeting of Zanaga Iron Ore Company Limited will be held at St Magnus House, 3 Lower Thames Street, London EC3R 6HA, England on 26 July 2012 at 9.30 a.m. BST to consider and, if thought fit, approve the following resolutions, which will be proposed as ordinary and special resolutions as indicated below:

Ordinary Resolutions

Receipt of Accounts and Reports

1 To receive and adopt the Company's financial statements for the year ended 31 December 2011 together with the Directors' report and auditor's report on those accounts.

Directors' Remuneration Report

2 To approve the Directors' Remuneration Report for the year ended 31 December 2011.

Re-election of Directors

3 To re-elect Clifford Thomas Elphick who retires by rotation as a Director of the Company.

4 To re-elect Michael John Haworth who retires by rotation as a Director of the Company.

Re-appointment of Auditors and Auditor's Remuneration

5 To authorise the Directors to re-appoint KPMG Audit Plc as auditors of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which accounts are to be laid before the Company.

6 To authorise the Directors to agree the Auditor's remuneration.

7 **Authority to Issue Shares**

For the purposes of the Articles of Association, the Directors be generally and unconditionally authorised to issue Relevant Securities:

(a) up to 186,943,998 Shares and such number to be reduced by the number of any Relevant Securities issued under paragraph 7(b) below (the **"Rights Issue Allotment Number"** for the purposes of Regulation 3 of the Articles of Association for the Allotment Period (as defined below)) in connection with an offer by way of a rights issue:

(i) to holders of Shares in proportion (as nearly as may be practicable) to their respective holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) in any other case, up to an aggregate number of 93,471,999 Shares (the **"Allotment Number"** for the purposes of Regulation 3 of the Articles of Association for the Allotment Period),

provided that this authority shall, unless renewed, varied or revoked by the Company, expire fifteen months after the passing of the resolutions or, if earlier, the date of the next annual general meeting of the Company (the **"Allotment Period"** for the purposes of Regulation 3 of the Articles of Association) save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be issued and the Directors may issue Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to issue Relevant Securities but without prejudice to any issuance of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

Special Resolutions

8 **Disapplication of Pre-emption Rights**

THAT, for the purposes of the Articles of Association, subject to the passing of resolution 7:

(a) the Directors be given the general power to issue equity securities (as defined by section 560 of the UK Companies Act) for cash, either pursuant to the authority conferred by resolution 7 or by way of a sale of treasury shares, as if Regulation 3 of the Articles of Association did not apply to any such issuance, provided that this power shall be limited to:

(i) the issue of equity securities in connection with an offer by way of a rights issue;

(ii) to the holders of equity securities in the Company in proportion (as nearly as may be practicable) to their respective holdings; and

(iii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) the issuance (otherwise than pursuant to paragraph (a) above) of Relevant Securities up to 28,041,600 Shares of the Company at the date of this Notice (the **"Non-Pre-emptive Number"** for the purposes of Regulation 3 of the Articles of Association for the period set out in the next paragraph).

The power granted by this resolution will expire fifteen months after the passing of the resolutions or, if earlier, the conclusion of the Company's next annual general meeting (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be issued after such expiry and the Directors may issue equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

This resolution revokes and replaces all unexercised powers previously granted to the Directors to issue equity securities as if Regulation 3 of the Articles of Association did not apply but without prejudice to any issuance of equity securities already made or agreed to be made pursuant to such authorities.

9 **Approval for on market purchases of Shares**

THAT, for the purposes of and in accordance with Regulation 25.1 of the Articles of Association, the Company be generally and unconditionally authorised, subject to applicable laws, to make market purchases of Shares on such terms as the Directors think fit, provided that:

(a) the maximum number of Shares hereby authorised to be purchased is 42,000,000;

(b) the minimum price, exclusive of any expenses, which may be paid for a Share is £0.01;

(c) the maximum price, exclusive of any expenses, which may be paid for each Share is an amount equal to the higher of: (a) 105 per cent of the average of the middle market quotations for an Share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the Share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003;

(d) the authority hereby conferred shall, unless previously revoked or varied, expire on 26 October 2013 or, if earlier, the conclusion of the next annual general meeting of the Company (except in relation to the purchase of Shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).

Proxies

As a shareholder of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. Please refer to notes on pages 59 and 60.

Holders of Depositary Interests

If you are a Holder of Depositary Interests you are requested to complete, sign and return your Form of Instruction instructing Computershare Company Nominees Limited. Please refer to notes on pages 59 and 60.

By order of the board

Secretary: Elysium Fund Management Limited
Dated: 27 June 2012
Registered office: 2nd Floor, Wickham's Cay II, PO Box 2221, Road Town, Tortola, British Virgin Islands

Definitions

The following definitions apply to the Notice of Annual General Meeting:

"Act"
the BVI Business Companies Act, 2004 (No. 16 of 2004) as amended and includes the regulations made under the Act

"Articles of Association"
the articles of association of the Company as amended from time to time

"Depositary Interests"
the interests representing Shares held through Computershare Investor Services PLC as depositary

"Directors" or the **"Board"**
the directors of the Company

"Employee Share Scheme"
any scheme for providing incentives to employees and Directors involving share options, allocations or awards of shares, share appreciation rights or other similar matters involving shares or securities

"Form of Instruction"
the form of instruction for holders of Depositary Interests in connection with the Meeting of Shareholders

"Form of Proxy"
the form of proxy for use by the Shareholders in connection with the Meeting of Shareholders

"Meeting of Shareholders" or **"Meeting"**
the meeting of shareholders to be held at 9.30 a.m. BST on 26 July 2012, notice of which is set out at the end of this Document, or any adjournment of that meeting

"Notice"
the notice of the Company's annual general meeting

"Relevant Securities"
(a) Shares other than Shares issued pursuant to:
  (i) an Employee Share Scheme;
  (ii) a right to subscribe for Shares in the Company where the grant of the right itself constituted a relevant security; or
  (iii) a right to convert securities into Shares where the grant of the right itself constituted a relevant security; and
(b) any right to subscribe for or to convert any security into Shares in the Company other than rights to subscribe for or convert any security into Shares issued pursuant to an Employee Share Scheme

References to the issuance of relevant securities include the grant of such right.

"Report and Accounts"
the Company's annual accounts for the financial year ended 31 December 2011 together with the last directors' report and auditor's report on those accounts

"Resolutions"
the resolutions set out in the Notice to be proposed at the Meeting of Shareholders

"Share"
a share issued or to be issued by the Company

"Shareholders"
registered holders of Shares in the Company

"UK Companies Act"
the UK Companies Act 2006

"Zanaga" or the **"Company"**
Zanaga Iron Ore Company Limited (incorporated and registered in the British Virgin Islands under the Act with registered number 1557213) whose registered office is at Coastal Building, 2nd Floor, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands

Explanation Of Resolution 1
The Shareholders are given the opportunity to receive and adopt the Report and Accounts.

Explanation Of Resolution 2
In accordance with best practice, Shareholders are given the opportunity to vote on whether or not they approve the Remuneration Report and this vote will be in respect of the content of the Remuneration Report and not specific to any Director's level or terms of remuneration. You can find the report on pages 33 to 36 of the Report and Accounts, and which are also available on our website at www.zanagairon.com.

Explanation Of Resolutions 3 And 4
The Articles of Association require one-third of the directors to retire by rotation each year. All retiring directors have confirmed that they wish to stand for re-election at the Meeting. The Chairman is satisfied that and, in the case of the Chairman, the Board is satisfied that following individual formal performance evaluations, the performance of the Directors standing for re-election continues to be effective and demonstrates commitment to the role. Biographical details of all the Directors appear on pages 26 and 27 of the Report and Accounts.

Explanation Of Resolutions 5 And 6
Resolutions 5 and 6 propose the re-appointment of KPMG Audit Plc as auditors of the Company from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company and to authorise the Directors to set their remuneration.

Explanation Of Resolution 7
This resolution deals with the Directors' authority to issue Relevant Securities (as defined in the Notice) in accordance with Regulation 3 of the Articles of Association. The current authority to issue shares expires at the Meeting and the Directors are seeking a renewal of the current authorities given to them.

This resolution will, if passed, authorise the Directors to issue:
(i) in relation to a pre-emptive rights issue only, Relevant Securities up to an aggregate of 186,943,998 shares being approximately two thirds of the Company's issued shares (excluding treasury shares) as at the date of the Notice. This maximum is reduced by the number of any Relevant Securities issued under paragraph (ii) below; and
(ii) in any other case, Relevant Securities up to an aggregate of 93,471,999 shares being approximately one third of the Company's issued shares (excluding treasury shares) as at the date of the Notice.

As at close of business on the date preceding the Notice, the Company did not hold any treasury shares.

The authority granted by this resolution will expire fifteen months after the passing of the resolutions or, if earlier, the date of the next Annual General Meeting of the Company.

The Directors have no present intention to exercise this authority.

Explanation Of Resolution 8
This resolution deals with Directors' authority to issue Relevant Securities for cash without first offering them to existing Shareholders in proportion to their existing holdings. The current authority to disapply the pre-emption rights expires at the Meeting and the Directors are seeking a renewal of the current authorities given to them.

This resolution will, if passed, give the Directors power, subject to the passing of resolution 7, to issue equity securities (as defined by section 560 of the UK Companies Act) for cash either pursuant to the authority conferred by resolution 7 or, by way of a sale, sell treasury shares (if any) without first offering them existing Shareholders in proportion to their existing holdings, provided that this power will be limited to:
(i) the issue of equity securities in connection with any offer by way of a rights issue;
(ii) the holders of equity securities in the Company in proportion (as nearly as may be practicable) to their respective holdings;
(iii) to the holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary; and
(iv) in any other case, to the issuance of Relevant Securities up to an aggregate of 28,041,600 being equal to 10% of the Company's issued Shares as at the date of the Notice.

The power granted by this resolution will expire fifteen months after the passing of the resolutions or, if earlier, the date of the next annual general meeting of the Company.

The Directors have no present intention to exercise this authority.

Explanation Of Resolution 9

This resolution seeks authority for the Company to make market purchases of its issued Shares and is proposed as a special resolution. If passed, the resolution gives authority for the Directors to purchase up to 42,000,000 Shares, representing just under 15% of the Company's issued share capital as at the date of this Notice.

The resolution specifies the minimum and maximum prices which may be paid for any Share purchased under this authority. The authority will expire on 26 October 2013 or, if earlier, the conclusion of the next annual general meeting of the Company.

The Directors intend to use the authority granted by this resolution when they consider that such purchases will be in the best interests of shareholders generally.

The Company may either cancel any Shares it purchases under this authority or transfer them into treasury (and subsequently sell or transfer them out of treasury or cancel them).

The exercise of the authority granted pursuant to this resolution will have the effect of increasing the proportionate shareholding of its substantial shareholders (to the extent that they do not participate in any buy-back). However, even if exercised in full, the authority granted by this resolution will not result in any current substantial holders' interest exceeding 50 per cent. without it acquiring any additional Shares and, whilst the exercise of the authority will not trigger any obligation on any of the current Shareholders to make an offer pursuant to the Articles of Association, any acquisition of Shares would be subject to the mandatory offer requirements in the Articles of Association.

Notes to the Notice of Annual General Meeting

(i) Only members of the Company are entitled to attend and vote at the Meeting. A member of the Company entitled to attend and vote is entitled to appoint a proxy or proxies to attend, speak and vote instead of him/her. A member of the Company may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. A proxy need not be a member of the Company.

(ii) A Form of Proxy for holders of Shares for use at the Meeting accompanies this document and, to be valid, must be completed and returned, together with any power of attorney or other authority under which it is signed, to Computershare Investor Services (Jersey) Limited, Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES, Channel Islands. In either case the Form of Proxy must be returned as soon as possible but in any event to be received not later than 9.30 a.m. BST on 24 July 2012 or 48 hours before any adjourned meeting.

(iii) A Form of Instruction for holders of Depositary Interests for use at the Meeting accompanies this document and, to be valid, must be completed and returned to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, England as soon as possible but in any event to be received not later than 9.30 a.m. BST on 23 July 2012 or 72 hours before any adjourned meeting.

(iv) Completing a Form of Proxy does not prevent a shareholder from attending and voting in person if so entitled. A vote withheld option is provided on the Form of Proxy to enable you to instruct your proxy to abstain on any particular resolution. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

(v) A shareholder must inform the Company's registrars in writing of any termination of the authority of a proxy.

(vi) In the case of joint holders of Shares, the signature of only one of the joint holders is required on the Form of Proxy but the vote of the first named on the register of members will be accepted to the exclusion of the other joint holders.

(vii) To be entitled to attend and vote at the Meeting (for the purpose of the determination by the Company of the votes they may cast), a member of the Company must be entered in the register of members of the Company at 5.30 p.m. BST on 24 July 2012.

(viii) During the Meeting there will be an opportunity for Shareholders, proxies or corporate representatives to ask questions relevant to the business of the Meeting.

(ix) The following documents, which are available for inspection during normal business hours at the registered office of the Company on any weekday (Saturdays, Sundays and public holidays excluded), will also be available for inspection at the place of the Meeting from 9 a.m. BST on the day of the Meeting until the conclusion of the Meeting:

 (A) copies of the letters of appointment (and other related documents) of the Non-Executive Directors; and

 (B) the Articles of Association of the Company.

(x) Electronic proxy appointment through CREST

CREST members who wish to issue an instruction through the CREST electronic voting appointment service may do so for the Meeting to be held at 9.30 a.m. BST on 27 June 2012 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for an instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited ("EUI")'s specifications and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes an instruction or is an amendment to a previously made instruction must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) not later than 72 hours before the time appointed for the Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions made through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001, as amended.

(xi) In accordance with the Articles of Association, all resolutions will be taken on a poll so as to accurately record the decision of all shareholders based on their shareholding interests in the Company.

(xii) Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf of all its powers as a shareholder provided that they do not do so in relation to the same shares.

(xiii) You may not use any electronic address provided either in this notice or in any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Advisors

Nominated Advisor and Joint Corporate Broker
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London EC2Y 9LY
United Kingdom

Joint Corporate Broker
Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square, Canary Wharf
London E14 5LB
United Kingdom

Auditors and Reporting Accountants
KPMG Audit Plc
15 Canada Square
London E14 5GL
United Kingdom

Legal
Berwin Leighton Paisner LLP
Adelaide House
London Bridge
London EC4R 9HA
United Kingdom

Registrars
Computershare Investor Services (BVI) Limited
Woodbourne Hall
PO Box 3162
Road Town
Tortola
British Virgin Islands

Financial PR
Pelham Bell Pottinger
5th Floor
Holborn Gate
330 High Holborn
London WC1V 7QD
United Kingdom

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Zanaga Iron Ore Project Mineral Resource Statement

Classification	Tonnes (Mt)	Fe[2] (%)	SiO_2[3] (%)	Al_2O_3[4] (%)	P[5] (%)	Mn[6] (%)	LOI[7] (%)
Measured	149	38.7	39.1	2.4	0.047	0.093	1.2
Indicated	2,540	34.1	43.6	2.8	0.050	0.112	1.0
Inferred	1,650	31	46	4	0.05	0.12	2
Total	4,339	33.0	44.3	3.3	0.049	0.114	1.3

2. Fe -Iron
3. SiO_2 Silica
4. Al_2O_3 Alumina
5. P Phosphorus
6. Mn Manganese
7. LOI Loss on Ignition (indicative of moisture content)

The Mineral Resource statement set out above is reported in accordance with the terms and definitions included in the Australasian Joint Ore Reserves Committee ("JORC") Code (2004) as at September 2011. As at this date, the total Mineral Resources reported at a 0% Fe COG constrained within an optimised Life of Mine (LOM) pit shell, amounts to 4.34Bt grading 33.0% Fe, 0.049% P, 44.3% SiO_2, 3.3% Al_2O_3, 0.114% Mn, and 1.3% LOI. The shell was determined by SRK using operating costs derived from the Pre-Feasibility Study work streams and a selling price of 130 USc/dmtu based on the SRK 3rd Quarter 2011 consensus market forecast for Brazilian fines without adjustment. The table above presents the Measured Mineral Resource, Indicated Mineral Resource, the Inferred Mineral Resource and the total Measured plus Indicated plus Inferred Mineral Resource based on drilling to 26 August 2011 and as estimated by SRK in September 2011. The Competent Person, Dr John Arthur of SRK, has given his permission for the publication of this information in the form and context within which it appears.

Geological Summary

The north-south oriented greenstone belt which hosts the Zanaga deposit has been defined by an airborne geophysical survey over 47 kilometres in length, and is typically between 0.5 and 3.0 kilometres in width.

The iron bearing lithologies within the Zanaga deposit 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 Canadian National Instrument 43-101 – "Standards of Disclosure for Mineral Projects".

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