# African Minerals Limited
## Annual Report 2010

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African MINERALS

## Mission

# To reward our shareholders by using our skills to identify, develop and operate a variety of African natural resource assets whilst enriching the communities affected by our operations today and in the future.

### Vision

To unlock and share the natural wealth of African countries and serve the increasing, long-term global demand for commodities through:

- investment;
- open partnership with the people of these nations;
- respect for their environments; and
- the fair distribution of the value created.

### Values

We aim to ensure that our operations create a positive net benefit on the environment, local communities and the health and wellbeing of our workforce, and to embed the principles of sustainable development in all of our business processes.

### Who we are

African Minerals Limited is a minerals exploration and development company with significant interests in Sierra Leone. It is listed on the Alternative Investment Market of the London Stock Exchange, and is now headquartered in London, United Kingdom.

### What we do

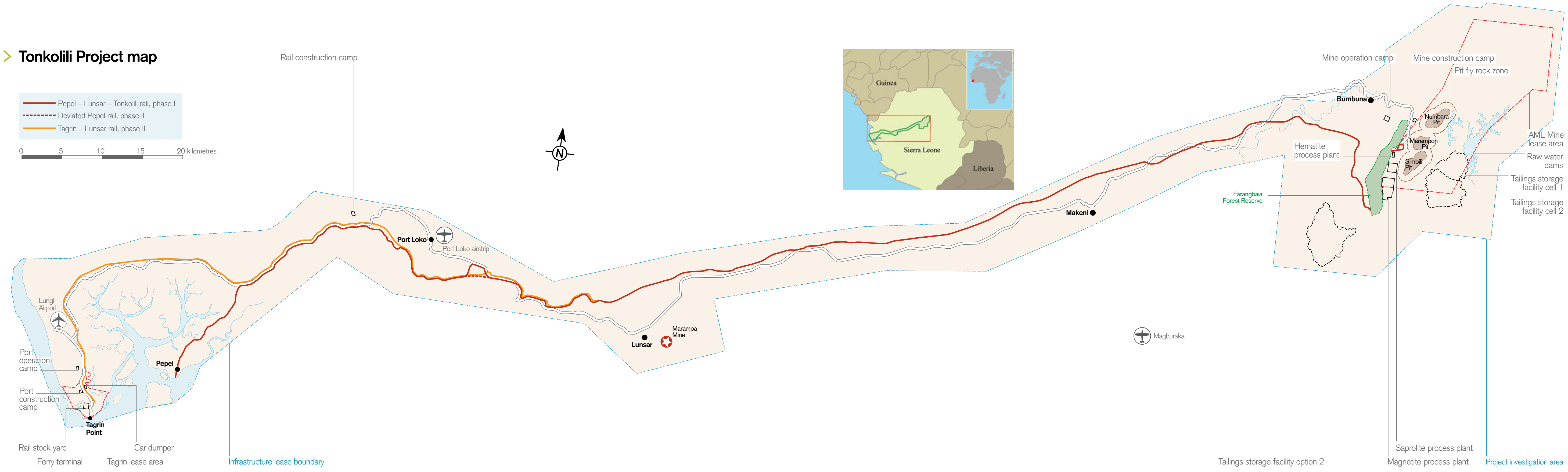
The Company is currently focused on the development of the world class iron ore deposit at Tonkolili and its related rail and port infrastructure. The project is set to become the largest employer and the largest contributor to GDP in Sierra Leone.

### What we expect

2011 is set to be a transformative year as African Minerals continues to mature. After its initial exploration phases, and the commencement of development in 2010, 2011 is expected to see the Company become a significant iron ore producer, with the commissioning of its Phase I production of 12Mtpa direct shipping ore expected to commence it's ramp up in the fourth quarter of this year.

CONTENTS

## Tonkolili Project map




# 10.5Bnt

mineral resource increase in February 2010

### February

Tonkolili Magnetite JORC compliant mineral resource estimate increased to **10.5**Bnt with the completion of 110,000m of drilling.

Pilot plant metallurgy indicates potential for production of a 70% Fe magnetite concentrate, at a mass recovery of 26.5%, containing low levels of impurities.

$130m underwritten cash placing of 20m shares at $6.26 (£4.00) per share.

# $247m

invested by CRM for a 12.5% shareholding in AML

### June

China Railway Materials Commercial Corporation deal completed following approval from the Government of the People's Republic of China, raising equity of $**247**m for a 12.5% shareholding in AML.

Appointment of Dermot Coughlan as Non-Executive Director.

# Mining lease

unanimous ratification of Tonkolili's mining license by the Sierra Leonean Parliament

### August

Mining Lease granted by the Government of Sierra Leone with unanimous ratification by Sierra Leone Parliament.

Environmental Impact Assessment Licence awarded.

# 3 Phase

development strategy

### October

Appointments of Miguel Perry as Chief Financial Officer, and Roger Liddell as Non-Executive Director, significantly strengthen the Company's Board.

Three Phase Strategy announced for the development of the hematite, saprolite and magnetite ore bodies at Tonkolili.

# $307m

equity raised in November 2010

### November

Completion of $**307**m equity raising and launch of secured loan facility.

# 12.8Bnt

JORC compliant resources

### December

Updated mineral resource estimate takes total JORC compliant resource to **12.8**Bnt, and delineates for the first time 1.2Bnt of hematite resource, with 126.5Mt of direct shipping ore, the basis of the current Phase I production strategy.

First production blast at Simbili.

Commissioning of Phase Ia dry process plant completed, direct shipping ore production stockpiling commences.

We ended the year with a Lost Time Injury Frequency Rate of 2.625 injuries per Million man hours worked.

## Post Reporting Period Significant Events >

### January 2011

Renegotiation of Cape Lambert Resources agreement over the Marampa Iron Ore Project.

Cape Lambert opts to receive access rights of up to 5Mtpa, including 2Mpta during our Phase I.

# $417.7m

Secured Loan Facility completed

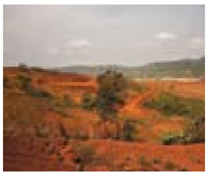
### February 2011

Completion of $**417.7**m Secured Loan Facility.

# Progressing towards production

## $1.1bn

Significant equity fundings of $730m through the year, and the completion of a $418m secured loan facility after the end of the year



## 200,000m

African Minerals continued to carry out one of the largest exploration projects in Africa in 2010, adding a further 90,000m of drilling to the previous year's 110,000m

## 12.8Bnt

Current JORC compliant iron ore resource which grew from 5.1Bnt to 12.8Bnt during 2010. The deposit remains open at depth and has potential for further expansion to the North East

### Highlights of 2010

- Significant in situ resource upgrade from 5.1Bnt to 12.8Bnt.
- Implementation of three phase development strategy to deliver rapid access to cash flow.
- Phase I production capacity increased from 8Mtpa to 12Mtpa and low cash costs expected at $27.50/t.
- All Tonkolili project mining licences awarded, environmental permits issued and fiscal terms agreed with the Government of Sierra Leone.
- $1.2bn Phase I project fully funded.
- $1.1bn raised since January 2010.
- Major strategic partnership signed with China Railways Materials Commercial Corporation ("CRM") providing access to finance, agency iron ore sales, enhanced procurement, supplier relationships and expertise.
- Board strengthened by addition of Dermot Coughlan and Roger Liddell as Independent Non-Executive Directors ("INEDs"). Liu Guoping as NED, and Miguel Perry as CFO.

### Update and outlook

- Company confident to produce 'first ore on ship' on schedule in Q4 2011.
- Definitive Engineering Study ("DES") for an expanded scope Phase II under review.
- Several options for financing of Phase II development currently being considered, including strategic partnership.
- Definitive Feasibility Study to be commissioned in Q2 2011.
- Appointment of Gibril Bangura as Executive Chairman, African Minerals Limited (Sierra Leone).
- Effective 11 April 2011, appointment of Nina Shapiro as INED, and Bernard Pryor, also as INED, from 12 July 2011.

**Corporate Social Responsibility**
Throughout the document these pullout boxes will appear. They include statistics and information for our commitment to CSR

Find out more:
african-minerals.com/csr

# Executive Chairman's statement

Frank Timis
Executive Chairman

**25yrs**

The length of the Mining lease granted, extendable in 15 year tranches

**99yrs**

The length of the exclusive rail and port lease granted extendable in 45 year tranches

In 2010 we successfully laid the foundations for long-term production and progressed from being an explorer into a developer. We are proud to have taken the Tonkolili deposit from an early stage exploration opportunity to a globally significant iron ore resource. In addition to minesite development we have also largely completed the large scale infrastructure for iron ore shipment following work on Pepel Port facilities and on over 200km of rail, including a full reconstruction of the existing rail.

The fact that we have been able to do this, and receive all relevant mining and environmental licences in just over three years is testament both to the skills of our management and operational team in Sierra Leone and the strong and valued support of our hosts, the Government and people of Sierra Leone.

Through the course of the year we have continued developing our three phase strategy for Tonkolili, and have increased the production capacity of Phase I by 50% from the original 8Mtpa of ore to 12Mtpa. We are on target to bring Phase I into production in Q4 2011. With an expected cash cost of $27.50/t at full capacity, the completion of Phase I will transform AML from a developer to a producer and provide a solid platform for future growth.

With the support of our investors, we have also successfully raised in excess of $1.2bn from equity and debt markets to fund Phase I. We have also concluded a strategic partnership with China Railway Materials Commercial Corporation ("CRM"), as a result of which they have become significant shareholders in the Company, have signed a magnetite offtake agreement and have provided us with access to major Chinese suppliers and markets and the benefit of their considerable scale in procurement and expertise in infrastructure development.

Given the substantial cash flows expected in 2012 from a fully funded Phase I, we now have several options for financing the development of Phase II, which is expected to add a further 23Mtpa of hematite concentrate. We are currently considering a number of different options with respect to funding the development of Phase II, one of which remains partnering with Shandong Iron and Steel Group Co Ltd, with whom we are in continued discussion.

In order to support this process, we are expanding and accelerating our work around Phase II by progressing from a Definitive Engineering Study ("DES") to a more detailed Definitive Feasibility Study ("DFS") which we expect to complete in the course of the year. The completion of this DFS will facilitate further funding, and will give us greater flexibility with regard to access to project or corporate debt facilities as appropriate.

In light of the growing size, scale and ambitions of the Company, we have also considerably strengthened our Board of Directors with the addition in 2010 of three very experienced Non-Executive Directors – Dermot Coughlan, Roger Liddell as Independent Non-Executive Directors and Liu Guoping as a Non-Executive Director and representative of CRM. We also announced the appointment of Bernard Pryor and Nina Shapiro as Independent Non-Executive Directors in April 2011.

In addition, our executive team has been significantly boosted with the addition of Miguel Perry to the Board of Directors as CFO in October 2010. The Company continued to strengthen its senior management team with the appointment of Jack Rowley as COO in February 2011.

As we develop and expand our operations we are cognisant of our responsibility to operate in a manner which is sustainable in the long-term, and are committed to ensuring that our operations have a net positive benefit for the people of Sierra Leone. We aim to operate to global best practice standards in health and safety, community relations and environmental protection.

The Company aims to reward shareholders by transferring to them the value inherent in our resources, whilst enriching the human and natural environment affected by our operations.

Together with our contractors, employees directly involved in the Tonkolili Project at the end of 2010 numbered around 3,160, of whom 78% were Sierra Leoneans. The earnings of our Sierra Leonean employees are considerably higher than the national average, and have a substantial multiplier effect on the economy. As AML transitions through this year from developer to producer, the direct revenues to the Government will start to become noticeable in the form of corporate taxation, royalties on iron ore sales, direct contributions to environmental and community funds, and through the Government's 10% ownership of the African Port and Rail Services.

Phase I of the project is fully funded and on schedule, with physical completion at approximately 77% as of today; major procurement is complete and all major contractors are mobilised. We are pleased that the critical path items including new rail excavation work and bridging are ahead of schedule and well managed, and we are confident that we will be in a position to start shipping our product in Q4.

We look forward to making 2011 a transformational year in which AML will become a globally significant producer to the benefit of all of our stakeholders.

Our employees, our contractors and the people of Sierra Leone have made outstanding progress in the last twelve months. On behalf of the Board I would like to thank all those involved together with our hosts, the people and Government of Sierra Leone, for their hard work and commitment.

**Frank Timis**
Executive Chairman
23 June 2011

# Our market

## 98%

Approximately 98% of all iron ore is used in the steel industry

## Iron ore is a key raw material in the integrated steel making process.

## 30%

Scholarships set up by AML support the education of around 30% of the Tonkolili region's school-age children

Find out more:
african-minerals.com/csr

### Industry overview

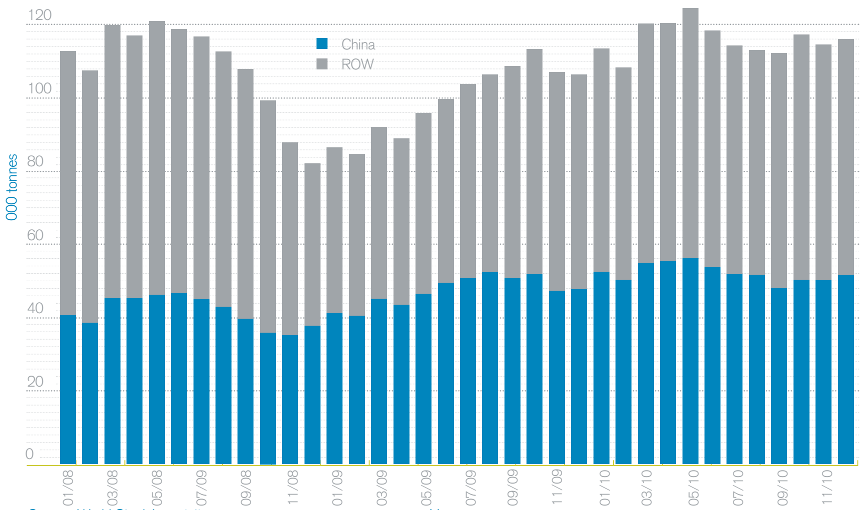
Approximately 98% of all iron is used in the steel industry. Iron ore is a key raw material in the integrated steel making process.

Demand for iron ore therefore is closely related to steel production and, indirectly, trends in economic growth. Key steel intensive industries worldwide include construction, motor vehicle manufacture, ship building, plant and equipment manufacture and consumer goods manufacture.

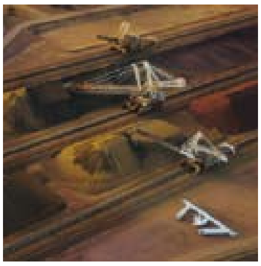
In 2010, world crude steel production increased by 17%, to approximately 1.4 billion tonnes ("Bnt"). This was 6% higher than the 2008 pre-crisis level of 1.33Bnt. Crude steel production in the established markets of Europe, Japan, Korea and Taiwan grew 24% almost a return to 2008 levels.

Global blast furnace hot metal production reached a new record of 1.0Bnt, an increase of 14% on 2009. Chinese production increased 9% to 590Mtpa.

### Global crude steel production (000 tonnes)

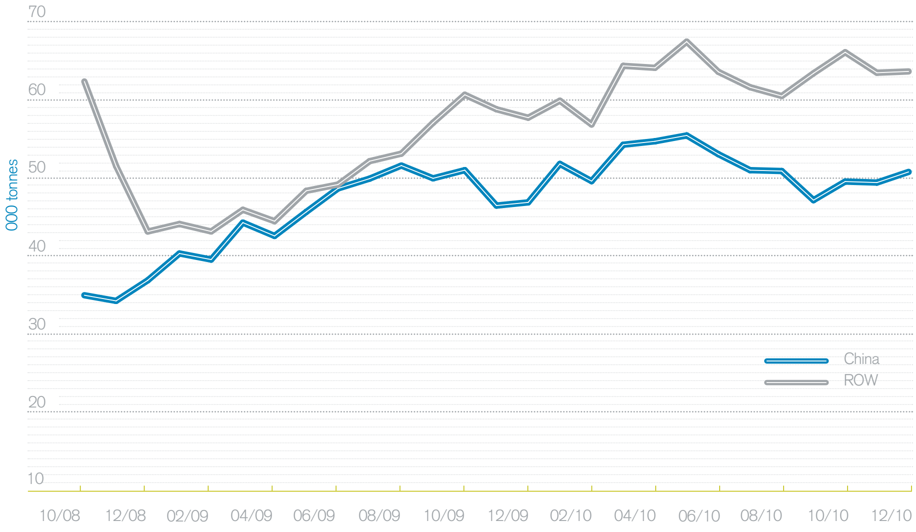



Source: World Steel Association



**70%**
Fe in Tonkolili's magnetite product

**Global Crude Steel Production (000 tonnes)**




Source: World Steel Association

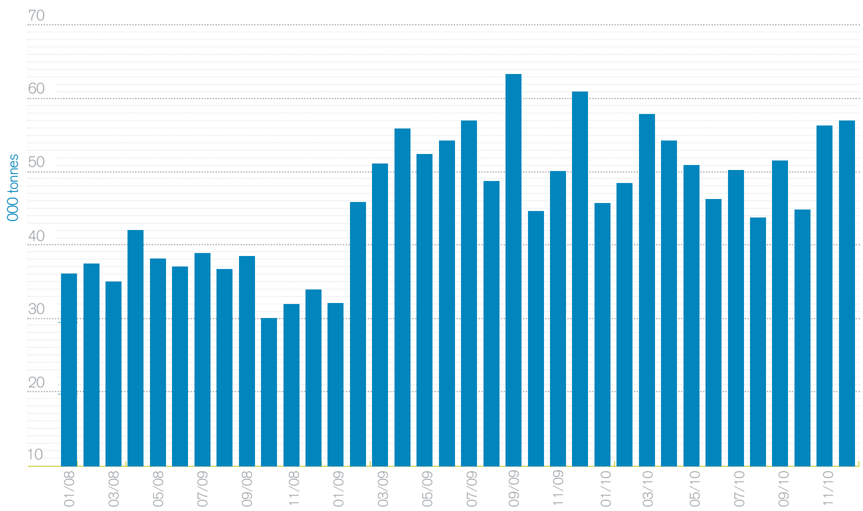
## Iron ore demand

While global crude steel production grew by 17% in 2010, total global seaborne iron ore trade rose by only 11%, to a level of 1.0Bnt. Traditional seaborne markets, Europe, Japan, Korea and Taiwan increased seaborne imports by 24%, matching their increase in crude steel production. Chinese crude steel production grew by 9% in 2010, while its seaborne imports decreased slightly to 619Mt, down from 628Mt in 2009. The remainder of the iron ore requirements in China were sourced from domestic production which AML estimate to have increased by 20%, on an apparent consumption basis, to 325Mt incentivised by high iron ore prices. For 2011 the World Steel Association is forecasting an increase in steel consumption of 5.9%, this implies incremental demand for iron ore of some 60Mt seaborne traded iron ore.

## Iron ore supply

Spot prices increased during the year due to restricted availability of iron ore as supply to traditional markets returned, weather related supply disruptions and the continuing Indian iron ore export ban.

**Chinese iron ore imports (000 tonnes)**




Source: Tex Report

**Sierra Leone: Did you know?**
Sierra Leone was established as a British Crown Colony in 1808

0.01%

With an expected Phosphorous level of around 0.01%, Tonkolili magnetite concentrate will be one of the cleanest concentrates in the world

800

AML continued to support 800 scholarships in Sierra Leone in 2010

Find out more:
african-minerals.com/csr

The outlook for the seaborne iron ore market in 2011 remains robust with CRU reporting that no major global "greenfields" iron ore projects are expected to come on line in 2011.

## Pricing

The iron ore pricing methodology changed fundamentally from April 2010 when the annual benchmark system was widely replaced with an index based pricing system. There are currently a number of pricing methodologies being applied dependent on the individual client and their geographic location. The majority of global sales from major producers have moved to quarterly or shorter-term pricing.

Index prices rose strongly during the year with the Platts 62% Fe CFR China fines index averaging approximately $147/dry tonne, up 85% year-on-year from $80/dry tonne in 2009.

## AML's products

AML will produce direct shipping ore ("DSO") hematite lump and fines products in Phase I. Our ore is demonstrating equivalent characteristics to similar Australian products which are already well-established and sought after in international markets.

## Logistics

A major constraint on project development is often not the grade of the deposit but the cost of developing relevant infrastructure. Iron ore is a bulk commodity and the required transport infrastructure, typically major port and rail facilities, is expensive, often a multiple of mine development costs. Access to infrastructure is often the differentiating factor in determination of economic viability. Sea freight is an integral component of cost through to the customer steel mill. Sierra Leone is well positioned to serve both the European and Asian steel markets. An illustrative pricing mechanism is shown at the top of page 7.

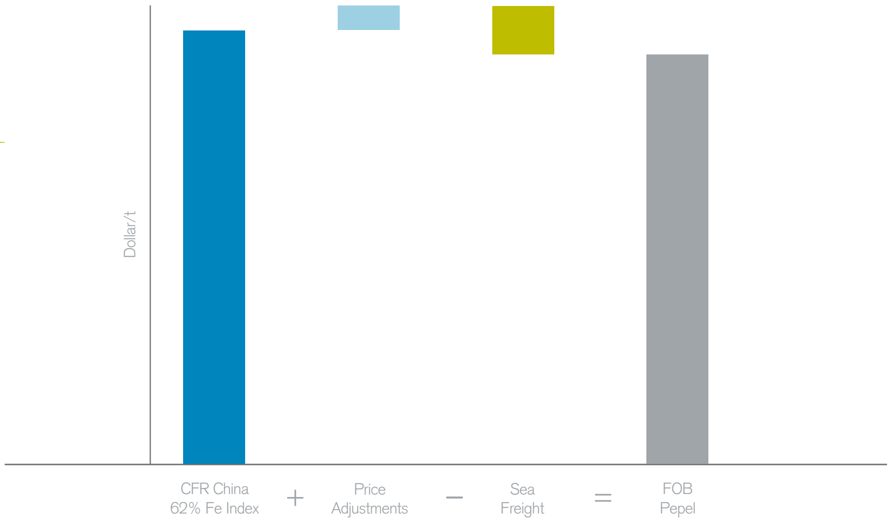
2.2Bnt

Global forecast iron ore production in 2010

# 69%

Top three producer countries account for 69% of global iron ore production

## Illustrative Pricing Waterfall (before commissions)




# 60%

Top three producer companies account for 60% of global iron ore exports

### AML's partners

AML has entered into an Agency Agreement with its shareholder, CRM, for the sale of iron ore into China.

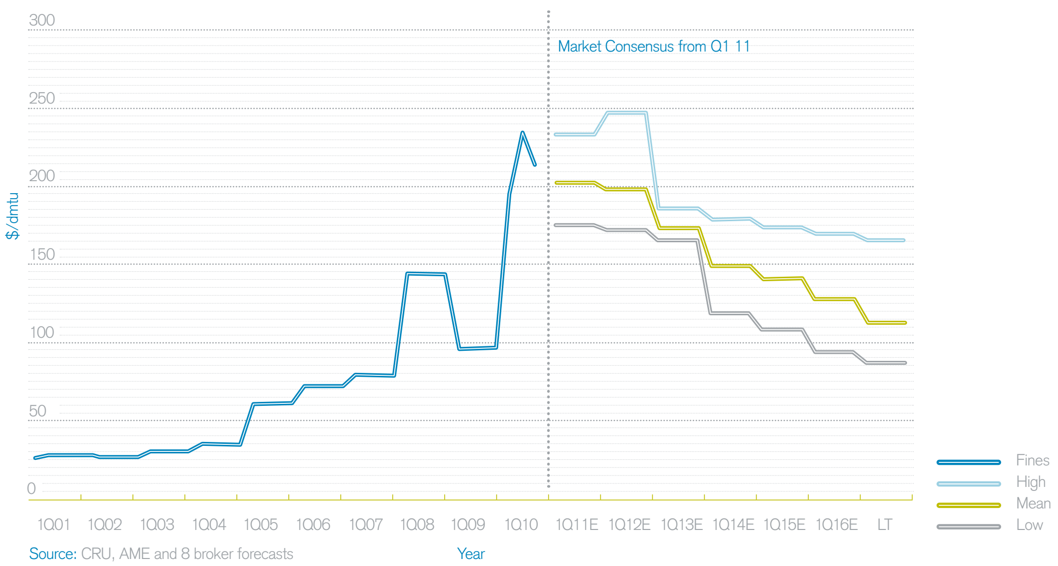
The Agency Agreement contemplates sales of between 5 and 8Mtpa from the hematite production at Tonkolili, being Phase I and Phase II, for a minimum of 20 years, and to convert the agency agreement into a fixed offtake agreement from year four.

CRM has also entered into a guaranteed offtake agreement for a minimum of 10Mtpa of magnetite from its Phase III operations for a minimum of 20 years.

Phase I production is currently not fully contracted. We expect to demonstrate the quality of our product to international steel mills before concluding further offtake agreements. Our intention is to build a portfolio of long-term sales contracts yet retain some exposure to the Chinese spot market and hence the formation of international prices.

As agent, CRM will be paid $15m per annum and $3/t for all sales into China.

## Iron Ore Fines Prices




Source: CRU, AME and 8 broker forecasts

# Our key drivers

3-Phase development approach for rapid access to cash flow

Significant impact on GDP makes Government of Sierra Leone/AML a synergistic relationship

## 1

### Multigenerational Tonkolili project

Tonkolili, with a JORC compliant resource of 12.8Bnt, is one of the largest iron ore resources in the world with a total mine life in excess of 60 years. Our three phase development strategy is designed to accelerate cash flow, improve flexibility, and minimise financing requirements, while at the same time providing a basis for operations for generations to come.

Our low strip ratio, open pit project is located attractively compared to our competitors, with access to existing port and rail infrastructure and the third largest deep water natural harbour in the world.

The project is also located attractively in comparison to the major exporters of Brazil, and with much better proximity to markets in the Middle East and Europe, where AML will also carry a significant cost benefit advantage of using smaller vessels.

## 2

### Partnering with the community

AML enjoys excellent relations with government, where its mining and infrastructure leases obtained unanimous ministerial approvals. AML already directly employs more than 80% of its workforce from local communities and enjoys excellent local relations. Through its network of Community Liaison Officers, AML remains active in all local matters in the communities its operations touch.

The Tonkolili project is currently the largest example of foreign direct investment in the country, and has the potential to double GDP once Phase II is in operation. Yet while Tonkolili is important for Sierra Leone, clearly Sierra Leone is important to AML, and we cherish our symbiotic relationship. As such, AML is committed to assisting the country in promoting its investment case to ensure stable and continued economic growth across all industries.

**10%**

The size of the Government of Sierra Leone's equity stake in African Rail and Port Services

Our early pre-payment of employee taxes has allowed the Government of Sierra Leone to fast track its infrastructure development efforts in Freetown and surrounds

Find out more: african-minerals.com/csr

In light of the growing size, scale and ambitions of the Company, we have considerably strengthened our Board

# 3

## Enhanced governance

AML is committed to improving its corporate governance to reflect best practice. The Board is committed to adopting the principles and standards set out in the UK Corporate Governance Code to reflect the growing maturity of the Company.

As a result, the Board has been considerably strengthened through the appointment of four independent and two non-independent directors. Dermot Coughlan was appointed Independent Non-Executive Director at the end of May 2010 and Roger Liddell joined as Non-Executive Director in November 2010 whilst Nina Shapiro and Bernard Pryor were also appointed as Non-Executive Directors after the end of the year. Murray John and Liu Guoping who represent Dundee Resources and CRM respectively also joined the Board during the year.

Biographies of the Board and Senior Management are available on pages 38, 39 and 17.

AML is committed to hiring and training local staff in all of its project areas

# 4

## Our people

We have recruited an excellent executive team from some of the best known mining companies and largest construction projects in the world. This team is eminently capable of repeating their previous individual performances and to deliver the Tonkolili project.

As the largest corporate employer in Sierra Leone, our labour requirements continue to grow, and we are committed to an eventual localisation of jobs across the entire spectrum. In order to particularly satisfy the requirements for semi skilled, skilled, technical and managerial roles, AML is embarking on vocational and technical training programmes.

In 2010 the Company opened a training facility at Pepel to provide a base where local people can receive training to learn the key skills required for our operations as well as receiving career guidance.

Fully funded into $1.2bn Phase I production at 12Mtpa direct shipping ore from Q4 2011

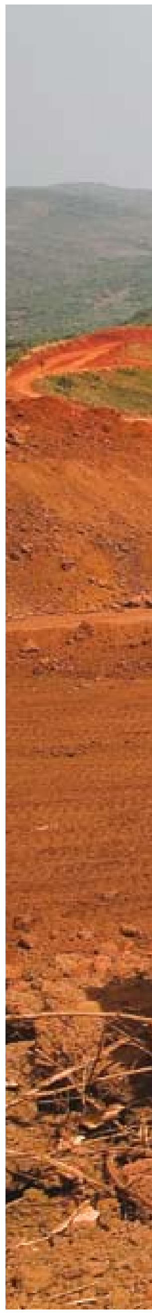
# 5

## Our financial position

Having raised over $1.1bn in debt and equity through the year and into early 2011, we are in a strong position to deliver a low cost, 12Mtpa iron ore project, from a standing start discovery three years ago.

In 2010 AML's strong shareholder base provided further significant support for our development strategy via a number of equity issues at increasing equity prices. Several of the equity shareholders also participated significantly in the $418m secured loan facility completed in February 2011.

With our industry partner CRM we have unparalleled access to procurement, construction capability, marketing and distribution.



1

## Multigenerational Tonkolili project

**The 12.8Bnt Tonkolili iron ore project is a globally important magnetite resource, capable of offering mineral security and continued employment for several generations.**

**Our strategy is to unlock the value in this asset by entering into a smaller scale, less capitally intensive, more rapid development. The presence of an ore grade "duricrust" resource, and an upgradeable soft hematite resource overlying the magnetite, allows the Company to develop a staged production profile building up to the major magnetite orebody.**

AML will set up a community development fund to ensure that some of the financial benefits of the operation are injected directly into the communities in which it operates

Find out more: african-minerals.com/csr


**11.6Bnt**

Size of the Tonkolili magnetite deposit which supports a more than 60-year mine life in Phase III

### Phase I
In Phase I, which is planned to enter production in the last quarter of this year, the ore grade duricrust will be mined. This ore requires no beneficiation other than crushing and screening, and will be sold as direct shipping ore. The 126Mt deposit will support a mine life of almost nine years in this phase, and produce 12Mtpa of lump and fine product at a grade of around 58 to 59% Fe. The ore will be transported to the existing brownfield development of Pepel Port on a part new/part fully reconstructed narrow gauge railway, and will be loaded on to intermediate vessels, for transhipment to Cape Size vessels just outside of the Freetown harbour.

### Phase II
In Phase II, the underlying saprolite resource will be mined, in addition to the Phase I ore. The saprolite will be upgraded to a 64% concentrate using crushing and gravity separation techniques, and will be transported, again on Narrow Gauge railway, but this time to a new, deep water port, at Tagrin Point. This will require the addition of a 37km new spur railway, and the development of the full port. The port will be able to directly load Cape Size vessels. The 1.1Bnt orebody will support the production of an additional 23Mtpa of concentrate for almost 20 years, supplementary to ongoing Phase I DSO production exported through Pepel.

### Phase III
In Phase III, the 11.6Bnt magnetite deposit will be exploited, which will produce up to 45Mtpa of magnetite concentrate with an iron content of 70%+ using fine grinding and high intensity magnetic separation. The currently known deposit will support that mining rate for over 60 years.

# 2

> **Did you know?**
> AML took a number of chieftains, villagers and employees to Ghana to illustrate what a mining operation would entail

## Partnering with the community

**Potential benefits resulting from the project will have regional and national significance. The Tonkolili iron ore project will contribute substantial, positive economic benefits to Sierra Leone through:**

- **Employment during construction and operation**
- **Large scale investment in Sierra Leone**
- **Government revenues**
- **Project wide training initiatives**
- **Community investment and development**
- **Contribution to local and regional development**

Even during the construction stage, the benefits to the community outside of formal contractor or direct AML employment, have been very noticeable:

- Higher levels of transportation requirement have resulted in investment in roads, with labour drawn from the communities, higher levels of owner operated taxis and even improved ferry transport.
- Feeding the growing numbers of employees and contractors is always an issue, and the local communities have increased farming activity from subsistence levels to commercial levels in some parts, and in other parts the improved road transport allows commercial scale farmers to access wider markets in larger towns with still-fresh produce.
- AML's presence in the Rail Corridor and Mine Site areas has led to the reduction of the slash/burn agriculture in the area, allowing natural revegetation and promotion of native species of flora.
- This activity has also enhanced malaria prevention through education and the removal of scrap, rubbish, and the draining of standing water.
- Requirement for site accommodation has led to the establishment of commercial brick making facilities across the project, carpentry, quarrying and sand production.
- In addition to the provision of foodstuff and building materials, local communities also actively now provide tailoring, car repairs, blacksmiths and waste recycling. Supporting these activities, AML runs and funds an advisory and support service encouraging and incubating such new business opportunities.
- The increased international activity has led to investment in the hospitality sector, with higher levels of staffing and private enterprise developing accommodation, bed and breakfast facilities, and investment in the airport.

A stakeholder engagement process was implemented in the early stages of project development to inform regional authorities and local communities about the Tonkolili project and to encourage public participation in the process. The consultation programme will continue for the full lifecycle of the project from feasibility and design through to operations and eventually closure. The stakeholder engagement process will follow national norms of Sierra Leone and international requirements.

The economic benefits to the community are already visible as AML continues to develop the $1.2bn Phase I part of the Tonkolili project, with Sierra Leoneans providing almost 80% of labour. This momentum will continue as we plan to invest c.$2bn in Phase II and around $6bn in our subsequent Phase III expansions.

Our own investment has kick started foreign direct investment and paved the way for other international companies to start to invest in the country including Cluff Gold, London Mining, Cape Lambert Resources, Anadarco and Addax BioEnergy.

# 3

## Enhanced governance

**We have committed to aligning our operations and strategies towards the ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption set out in the UN Global Compact. The goal of the Global Compact, to ensure that business, as a primary driver of globalisation, helps to ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.**

**Did you know?**
The Pepel Harbour dredge has moved almost 3 million cubic metres of ground to open the shipping channel and turnaround areas

The goal of the Global Compact is directly comparable to how AML perceives its role in leading the development of Sierra Leone through the application of global best practice standards at our operations.

In all of its operating procedures and policies AML will:

- Implement and maintain ethical business practices and sound systems of corporate governance.
- Integrate sustainable development considerations within the corporate decision-making process.
- Uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by our activities.
- Seek continual improvement of our health and safety performance.
- Seek continual improvement of our environmental performance.
- Contribute to the social, economic and institutional development of the communities in which we operate.

Through the course of the year the Company has grown in stature and in value in line with the growth in the resource and the momentum towards production.

With equity partners in China, institutional supporters around the world, and the scrutiny afforded by the draw down of the debt facility, the Company is committed to improving oversight and transparency.

To that end the Company has started to significantly strengthen its independent non-executive directorships, with the addition of Dermot Coughlan and Roger Liddell. On 12 April the Company appointed Nina Shapiro. The Company also appointed Bernard Pryor effective from 12 July 2011.

This process will continue as we strive to meet our objective to have a majority of Independent Directors.

**$1.2bn**
The scale of AML's foreign direct investment in Phase I

4

> Did you know?
The project delivery team of CEO, COO and 4 x discipline managers have a combined experience level of 150 years

## Training and development

As one of the largest employers in Sierra Leone, AML is committed to hiring and training local staff in all of its project areas. A workforce with the right skills, experience and training is one of the industry's most basic needs. AML has invested a great deal of resources in developing the skills of our employees.

Health and safety training is of primary importance. As the work force has increased through the year, from 750 to 3,160 (as at end 2010) – of which 78% were Sierra Leone nationals – the demands on basic safety awareness training have grown exponentially.

In 2010 the Company opened its training facility at Pepel. The facility provides a base where numerous local people will receive training to learn the key skills required for our operations as well as receiving career guidance. The facilities include classrooms, training workshops and other technical simulation exercises.

In 2010 AML awarded a further 800 scholarships to local children in the Tonkolili District to attend Junior and High School. This represents about 30% of the region's children. They were selected by the individual Chiefdom and District Committees, composed of local chiefs, Members of Parliament of the District and community leaders in the Chiefdoms and District. To further their education, the Company also provided books, pencils, crayons, blackboards and school uniforms to these children.

# Our people

## One of our key strengths is our people. The Board of Directors and the executive management have assembled a multi-disciplinary and highly experienced team to develop the Tonkolili project.

### Executive team

**Frank Timis, Executive Chairman**
Frank has been the Executive Chairman of AML since 2006. He was the founder and former Executive Chairman, President and Chief Executive Officer of European Goldfields Ltd and of Gabriel Resources Ltd.

**Alan Watling, CEO**
Previously COO at Fortescue Metals Group, Alan has over 30 years of experience in developing world-class iron ore assets and managing the development and operation of major international rail and port facilities. Prior to this he spent over 20 years with Rio Tinto Group.

**Gibril Bangura, Executive Chairman, AML Sierra Leone**
Gibril, a founding shareholder, was born in Sierra Leone, and has been a Director of AML since 1998 and Executive Chairman of the Company's Sierra Leone subsidiaries since 1996.

**Miguel Perry, CFO**
Miguel was previously the CFO and member of the Board of Directors of Eurasian Natural Resources Corporation plc.

### Leadership team

**Jack Rowley, COO**
Jack was the founding shareholder and MD of Calibre Global Pty Ltd, which specialised in EPCM delivery to the major participants in the iron ore industry, principally for BHP Billiton and Rio Tinto Group.

**Steve Allard, Vice President, Infrastructure**
Steve has 30 years of general management and operational experience in mining and infrastructure. He was previously the Head of Port at Fortescue Metals Group.

**Victoria Sherwood, VP Services**
Victoria is a qualified engineer and accountant with a wealth of experience spanning both industry and consulting.

**Clinton Keenan, Acting VP Mining**
Clinton has over 13 years' experience in mining operations. Before joining AML, he was Group Manager of Technical Services for Fortescue Metals Group.

**Karl Sinko, General Manager – Projects**
Karl has 35 years of engineering, construction management, EPCM and EPC experience in major infrastructure, mining and petrochemical projects. Prior to joining AML he was Executive Director with WorleyParsons.

**Marcus Reston, GM Geology and Exploration**
Marcus has over 20 years of professional experience in minerals exploration and the geosciences and significant experience in geological project management.

**Pat Ramunno, GM Mining**
Pat has over 30 years of mining experience in large open cut mines including processing and maintenance. He has extensive overseas experience.

**Gavin Fletcher, GM Processing and Metallurgy**
Gavin is a Metallurgist with 16 years' industry experience across various commodities including iron ore, magnetite, gold and diamonds.

### AML's key personnel objectives are:

- Continuing education and training for the current and next generation Sierra Leone citizens to be able to fulfil technical roles within its business.
- To build a world class iron ore business run by local Sierra Leoneans.
- To fast-track the training and education of local Sierra Leoneans, both within the Company and the broader local community.

AML expects to create a net positive impact on Sierra Leone through its employment practices and is committed to transferring skills to the local workforce as far as is possible.

The AML team comprises a blend of local Sierra Leoneans and expatriates educated with both the technical as well as the local knowledge to successfully achieve AML's objectives. The team is based in Sierra Leone at multiple locations across the business footprint. The team works on a daily basis with local communities and engages at both a local and national level with government.

AML has hired Community Liaison and Safety Liaison Officers from within the local communities.

**Did you know?**
Project construction stage Health and Safety is being managed to Australian Mining Industry standards

AML is building water infrastructure to ensure affordable and clean drinking water is supplied to areas surrounding its operations

Find out more: african-minerals.com/csr

# 5

## $1.1bn

Significant equity fundings of $730m through the year, and the completion of a $418m secured loan facility after the end of the year

AML continues to sponsor the Freetown Premier League Football Competition in support of fostering cameraderie and community pride

Find out more: african-minerals.com/csr

## Our financial position

**Through 2010 and into early 2011 we carried out two institutional equity placements, closed a secured loan facility, and attracted a strong strategic partner in the form of CRM. In total we have raised $1.15bn to enable us to fully fund our Phase I project into production.**

**Both the equity and debt issues were well supported by our major institutional shareholders, the top 20 of which hold in excess of 80% of the Company.**

In June 2010, China Railways Materials Commercial Corporation ("CRM") invested $247m in AML through the purchase of 33.6m AML shares (representing 12.5% of the Company) at £5.00/share – a significant premium to the then market price. Following the $307m equity placing carried out in November 2010, CRM invested a further $46m to maintain their shareholding. Also, earlier in the year, AML undertook a private placement to raise circa $130m.

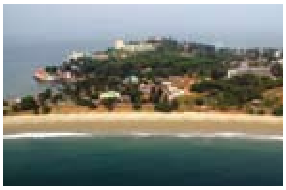
In February 2011, we announced the closure of the $417.7m Secured Loan Facility launched in November 2010.

Following these fundraisings, the Company is confident it has adequate headroom to fund completion of the construction of Phase I to first ore on ship.

With a strong financial position, an expected strong operating cash flow from Phase I to commence this year, the demonstrably strong support of our shareholders, and a world class Chinese industry rail partner, we believe we have the financial strength and support to move forward into the next stage of our development.

**Sierra Leone: Did you know?**
Freetown Harbour is one of the deepest natural harbours in the world

# Sierra Leone a special relationship



> Sierra Leone: Did you know?

In April 2011, Sierra Leone celebrated its 50th anniversary of Independence, following the end of British rule in 1961

AML will set up an environmental protection fund to ensure that some of the financial benefits of the operation are injected directly into the communities in which it operates

Find out more: african-minerals.com/csr

## An historic year for Sierra Leone

2011 saw the celebration of Sierra Leone's 50th anniversary of independence. In April 1961, Sierra Leone became politically independent of Great Britain, retained a parliamentary system of government and was a member of the British Commonwealth of Nations. Over the last decade the notable transformation of Sierra Leone has continued through co-operation with the international community and an appreciation that sustainable long-term development is best achieved through transparent and open relationships and the promotion of commercial investment.

## About the Republic of Sierra Leone

### Geography

- Land area of 71,740 sq km.
- Estimated population of 5.5m.
- 38% of population is urbanised.
- Capital city of Freetown.
- Substantial mineral wealth – iron ore, diamonds, titanium dioxide – although largely unexplored and large scale development under way.

### Political/Constitutional

- Constitutional democracy with a legal system based upon English law.
- Head of State is President Ernest Bai Koroma.
- Two successful handovers of political power since the end of the cross-border conflict in 2000.
- Official language is English.

### Economic

- GDP of just under $2bn with an estimated growth rate of 5.2% in 2010.
- GDP per capita of $900.
- Foreign Direct Investment was $74m in 2009, nearly double 2000 levels.
- Exports of goods and services in 2009 were $323m.

With two peaceful and successful transitions of power, and democratic elections in 2012, the political system in Sierra Leone has proven resilient and increasingly mature following the end of the war.

The increasing confidence amongst international investors in supporting the country has been illustrated through the ability of mining companies to raise in excess of $1bn for Sierra Leone projects, in the last 12 months alone.

The challenge now, is for the country to ensure that it continues to meaningfully transfer the value inherent in its significant human and natural resources to develop a prosperous economy for the long-term benefit of all. Successive governments have laid the groundwork for this transformation and have promoted policies supportive of business and enterprise.

Sierra Leone compares favourably with other sub-Saharan African countries in the World Bank's Ease of Doing Business rankings

and was rated as low sovereign risk by the World Bank.

GDP has increased 56%[1] between 2005 and 2009 with the World Bank forecasting that growth will continue at a rate of 5% per annum until 2013[2].

Significant challenges remain, however, with Sierra Leone suffering from high unemployment, particularly youth, and low literacy rates with life expectancy and Gross Net Income per capita below average levels for both sub-Saharan Africa and low-income countries. Whilst these indicators look set to improve significantly over the next several years, it is important to ensure that the development of the country is both broad based and stable.

### AML and Sierra Leone

AML works in partnership with the people of Sierra Leone to ensure that its operations aim to create a positive net benefit on the environment, local communities and the health and wellbeing of our workforce.

AML has been active in Sierra Leone since 1996 and has to date invested a total of $850m with further significant investment likely in the future as Phases II and III of the Tonkolili deposit are developed.

The Company and its contractors employ over 5,000 people, and is committed to ensuring that as many posts as possible are filled by Sierra Leoneans. Currently 78% of the Company's workforce are Sierra Leonean nationals, however we intend for this to increase over time.

Health and Safety is also a key focus and while AML currently complies with ISO 18001 the Company is committed to continuous improvement to meet global best practice. In 2010 health and safety performance was assisted by the strong commitment of local employees towards delivering on their individual promise to promote the Tonkolili project as a landmark investment in the country today and because it will secure the long-term future of generations to come.

Once production at Tonkolili begins in 2011, AML will become the largest contributor to Sierra Leonean GDP and the largest source of tax income for the Government. In order to ensure that the positive impacts of AML's operations are felt as widely as possible in Sierra Leone, the Company supports the establishment of independent industries through its procurement policies and the provision of mentoring and advice, through its business incubator programme.

AML is also fully committed to adopting best practice in its community relations initiatives. The Company currently provides 800 scholarships every year to children who would otherwise not be able to continue attending school, works with a leading medical research company to fund a potentially pioneering treatment for malaria prevention and distributes large quantities of clean safe drinking water. These programmes are expected to increase as AML's operations develop.

The Company also recognises the importance of preserving and enhancing Sierra Leone's natural environment and wildlife, and has conducted an Environmental Impact Assessment ("EIA") in conjunction with the Government of Sierra Leone. This EIA will ensure that our operations have as little negative environmental impact as possible. AML firmly believes that the Company has an opportunity to be a positive environmental influence in Sierra Leone through our continued studies into how best to protect and secure the country's environment.

The future prosperity of AML and Sierra Leone are inextricably linked, and as the Company emerges over the coming years as a globally significant iron ore producer it will act as a world class example of what can be achieved in the country.

1 World Development Indicators database, December 2010.
2 Source: World Bank – Sierra Leone at a Glance 25/02/11.

# Chief Executive's Q&A

"We have assembled from the very beginning a significant amount of capability within the AML leadership team and technical management."

**Alan Watling**
Chief Executive Officer

**Q. How confident are you that you will deliver first ore on ship in Q4?**

A. Extremely confident. Whilst we have set a series of challenging schedules we also have a strong team with a long history of delivering to aggressive timelines and we are on track to deliver the first phase of the project in Q4 2011.

**Q. How confident are you that you will be able to sell Tonkolili's product?**

A. Feedback from our market research and the market itself to-date has been extremely positive. We have implemented a number of different strategies that would see our first phase production consumed by mills quite readily. We have recently appointed a Head of Sales and Marketing to drive this process.

**Q. How important are the infrastructure projects to the development of Tonkolili?**

A. The infrastructure forms the foundation and backbone of the Tonkolili asset. The rail in particular is the primary enabler for Phase I product and the development of Tagrin Point during Phase II will enable us to significantly reduce operating costs at the same time as expanding significantly with the premium second phase product.

**Q. Following the recent fundraising, does AML need to partner with external investors in order to develop the second and third phases of the Tonkolili project?**

A. Obviously strategic investment into Phases II and III is an area that we are looking at very closely. However once AML is into production all subsequent development could be funded out of cash flow. Ongoing partnerships with external investors gives AML the opportunity to accelerate that development and allow AML to get its premium products into the strong seaborne market earlier than might otherwise be possible.

**Q. How are you ensuring that best practice health and safety standards are being adhered to in what is clearly a very rapid development programme?**

A. AML puts health and safety performance and training at the forefront of all of its operations and actions. AML continues to roll out international standards across its business and to all of its third party subcontractors. At the start of the process a "whole-of-business/project" baseline audit covering health, safety and environmental issues was conducted. This allowed the team to design a clear and practical set of working practices and implementation actions to ensure that rapid development of the project occurs safely. In addition to demanding a level of health, safety and medical capability from our sub-contractors, AML has its own in-house health, safety and medical team. This team ensures the sub-contractors and all AML employees understand, strictly adhere to, and have all the right tools to operate safely. Additional measures have been put in place in relation to Sierra Leone workers whose levels of risk awareness and perception are significantly lower than experienced expatriate workers.

**Q. What are the main environmental impacts of the Tonkolili project and the associated infrastructure projects and what steps are you taking to mitigate these impacts?**

**A.** AML believes it has the opportunity to have a net positive impact on the environment its footprint touches. We are working closely with the Sierra Leone Environment Protection Agency as well as organisations such as Kew Gardens on biodiversity plans, replenishment and restoration of native species habitat, as well as rare and endangered fauna and flora that has previously been impacted by the use of short-term agricultural practices. AML has also partnered with the Tacugama Chimpanzee Sanctuary to help and protect the native chimpanzee colony in Faragnbaya Forest Reserve nearby to Tonkolili.

**Q. Given the very long-term nature of mining investment, ensuring that local communities are supportive of projects is vital. What is AML doing to ensure that local communities benefit from the development of Tonkolili?**

**A.** This is a focal point in AML achieving sustainable growth. In addition to the revenues, royalties and taxes AML will pay as a corporate entity to the Government of Sierra Leone it has also committed to and has established two additional community and environmental funds which will each receive funds equal to 0.1% of revenues. These funds are to be used specifically for the support and development of the community and the environment within the footprint of the AML business. A governance body comprising AML, government and community representatives will be established to administer the use of these funds with primary focus in areas such as water and infrastructure development, education and healthcare.

**Q. How confident are you that AML has the operational skills necessary to become a significant producer of iron ore?**

**A.** We are very confident on this, not only to become a significant new producer but also beyond into steady state operations through all phases into a long life, low cost producer. We have assembled from the very beginning a significant amount of capability within the AML leadership team and technical management. Approximately 80% of my leadership team have worked for at least one of the major international iron ore houses (Rio Tinto, BHP, Vale and FMG) and over 50% of them have experience of establishing successful greenfield operations in developing countries. A significant amount of focus is being put into training the local workforce with a view to transitioning that international operating expertise into the hands of the longer-term local workforce who will be the leaders of this business in the future.

**Q. What do you see as the greatest challenges facing AML over the next year?**

- Continuing to manage expectations within the Sierra Leone communities around job creation.
- Keeping the workforce safe from Malaria, particularly during the wet season.
- Ensuring Phase I operations are properly bedded down before focus is transitioned onto Phase II expansion.

**Q. Iron ore markets are very buoyant at the moment, how confident are you that they will remain so over the longer term?**

**A.** We strongly believe that the growth in demand for iron ore will continue for some time to come. This belief is now generally accepted by most independent observer bodies.

**Q. What are the challenges and opportunities of operating in Sierra Leone?**

**A.** Our key challenges in the early genesis of the business was to overcome the reluctance of both investors and employees around Sierra Leone. We have largely overcome these perceptions and are continuing to educate the markets. The Government of Sierra Leone also has many initiatives to attract and retain investment in the country. On-going we are looking to increase the efficiencies of the infrastructure for things like in-country logistics and medical care especially for Phases II and III which are significantly larger. The opportunities far exceed any of the challenges the team confronts in a rapid start-up like Phase I. The country is a good place to work, the people are generous and excited about the significant opportunities for work, training and advancement that AML has committed to and is currently undertaking. The opportunity for growth that exists within Sierra Leone is very exciting in all aspects; this is a developing country with good government administration and an environment that is safe for our personnel to operate in.

# Tonkolili deposit and our phased development approach

## The flagship project comprises an iron ore deposit which extends over a combined strike length of 30km.

**Project highlights**

- Significant in situ resource upgrade from 5.1Bnt to 12.8Bnt[1].
- Three phase development approach for rapid attainment of cash flow.
- Phase I production capacity increased from 8Mtpa to 12Mtpa and low cash costs expected at $27.50/t.
- On schedule to enter commercial production in Q4 2011.
- Head start with infrastructure – existing port means easy access to major, deepwater harbour.
- Low cost of transport and infrastructure, low stripping ratio and low processing requirement drive low cash costs.
- Strategically located for European and Asian markets.
- Uniquely experienced management team.
- All Tonkolili project mining licences awarded, environmental permits issued and fiscal terms agreed with the Government of Sierra Leone.
- Definitive Engineering Study for an expanded Phase II under review, Definitive Feasibility Study to be commissioned in Q2 2011.

1 Including 126.5Mt of direct shipping ore ("DSO"), 1.1Bnt of saprolite ore suitable to produce a hematite concentrate, and 11.6Bnt of magnetite ore.

### Geology

Mineralisation at Tonkolili forms hills which rise up to 500m above the valley floor. The resource depth is calculated at approximately 400m below the valley floor. The open pit is currently planned to a depth of approximately 300m below the valley.

Primary magnetite mineralisation has been weathered to depths of 70m to 100m over much of the deposit, resulting in the formation of a supergene enrichment blanket of hematite, goethite and limonite. On average, the top 25m of this zone have been further weathered and enriched to duricrust, within which mineralisation comprises hematite, goethite and limonite iron oxides. The remainder of the weathered zone has been partially weathered to saprolite.

### Mineral resource

Tonkolili started the year with a JORC compliant ore resource of 5.1Bnt. In December 2010 after completing a further 199,602m of drilling, SRK Consulting (UK) Ltd reported an increased JORC compliant ore resource estimate of 12.8Bnt with the addition of substantial Direct Shipping Ore ("DSO") and saprolite ore minerals resources, and a further extension of the magnetite mineral resource.

### Licences and permits

In August 2010 the Government of Sierra Leone approved, and the Parliament of Sierra Leone unanimously ratified, the Mining Lease (the "Mining Lease") for the Tonkolili iron ore project, with the licences for the related infrastructure projects (the "Projects") having already been granted.

Under the Mining Lease the Government has granted the Company two Large Scale Mining Licences, which are each valid for a period of 25 years, following which they will be renewable for further 15 year periods in accordance with the Mines and Minerals Act 2009.

The Mining Lease also determines the fiscal regime that will govern the development and operation of the Projects. Major features of the fiscal regime include:

- a Mining Lease fee of $1m per annum;
- a 3.2% royalty of the gross sales price of iron ore production which includes 0.1% to be contributed to an environmental and social protection and impact mitigation fund and 0.1% to a community development fund for the benefit of communities impacted by the Projects, to be managed and controlled by the Company;

> Sierra Leone: Did you know?
The last rail loaded into Sierra Leone was in 1932

## Tonkolili JORC resource

| Material | Category | Tonnes (millions) | Fe Total % | $SiO_2$ % | $Al_2O_3$ % | P % |
|---|---|---|---|---|---|---|
| DSO | Measured | 25.5 | 59.1 | 2.0 | 5.5 | 0.12 |
| | Indicated | 57.4 | 58.1 | 2.4 | 6.0 | 0.09 |
| | M and I | 82.9 | 58.4 | 2.3 | 5.8 | 0.10 |
| | Inferred | 43.6 | 57.6 | 2.8 | 6.2 | 0.08 |
| | M and I and I | 126.5 | 58.1 | 2.5 | 6.0 | 0.09 |
| Saprolite | Measured | 6.1 | 52.2 | 6.8 | 8.4 | 0.17 |
| | Indicated | 101.3 | 46.6 | 17.1 | 7.1 | 0.12 |
| | M and I | 107.4 | 46.9 | 16.5 | 7.2 | 0.12 |
| | Inferred | 1,017.1 | 39.3 | 21.9 | 11.6 | 0.08 |
| | M and I and I | 1,124.5 | 40.0 | 21.4 | 11.2 | 0.08 |
| Magnetite | Measured | 2,500 | 30.2 | 44.9 | 4.8 | 0.07 |
| | Indicated | 3,700 | 30.4 | 44.8 | 5.0 | 0.06 |
| | M and I | 6,200 | 30.3 | 44.8 | 4.9 | 0.06 |
| | Inferred | 5,300 | 29.8 | 45.1 | 5.3 | 0.06 |
| | M and I and I | 11,500 | 30.1 | 45.0 | 5.1 | 0.06 |

- a corporate tax rate of 25% for the life of the mine, with a four year accelerated depreciation allowance of 40% in the first year, and 20% in each of the subsequent three years;
- 5% withholding tax on dividends; and
- exemptions for GST and import tax for the Company and its contractors.

The Government also awarded an Environmental Impact Assessment Licence ("EIA Licence") to the Company, following the Government's review of the Company's environmental impact assessment statement. The EIA Licence is renewable annually on a rolling 12 month basis upon payment of the prescribed fees. Fees for the period 2010/2011 were $122,400.

### Phased development

Early in the year we had already identified the benefits of embarking on a fast-track to cash flow, exploiting the hematite cap of our large magnetite resource, towards the previously announced 45Mtpa magnetite target capacity.

The Company is proposing a three-phased development of the project, with Phase I exploiting the secondary iron mineralisation in the duricrust, Phase II exploiting the saprolite material and Phase III focusing on the primary magnetite.

The earlier scope for a Phase I of 8Mtpa of DSO was expanded to 12Mtpa, and for the Phase II saprolite hematite concentrate from 17Mtpa to 23Mtpa.

### Phase I

The delineation of the 126Mt of DSO gives us the ability to enter production in Q4 2011 at a planned production rate of up to 12Mtpa DSO lump and fines product. This $1.2bn project involves the refurbishment of the Pepel Port, the complete reconstruction of 74km of existing railway, the completion of a new 126km narrow gauge railroad, and the establishment of a major mine.

## Typical product specification

| Material | Process | Mass Pull | Fe Total % | $SiO_2$ % | $Al_2O_3$ % | P % |
|---|---|---|---|---|---|---|
| DSO | Direct[1] | 85 | 59.5 | 1.0 | 5.8 | 0.05 |
| Saprolite | Classification[2] | TBD | 64.3 | 1.9 | 2.0 | 0.06 |
| feed sample | | | 47.2 | 16.9 | 7.3 | 0.07 |
| Magnetite | LIMS & Flotation[3] | 26.5 | 70.3 | 3.0 | 0.4 | 0.01 |
| feed sample | | | 30.7 | 44.7 | 4.5 | 0.04 |

1 Lump specification as per Ammtec test work results 2010.
2 Pilot test performed using Heavy Liquid Separation, full scale process expected top be spiral classification.
3 Low Intensity Magnetic Separation; only 42% of feed will require fine grinding to 38 microns.

### Did you know?

There are almost 20,000t of steel rail on the Pepel to Tonkolili railway and over 300,000 sleepers

# Tonkolili deposit and our phased development approach continued

**$27.50/t**

The expected cost of production of our Phase I operation

> Did you know?

AML predecessor company, Sierra Leone Diamond Corporation, completed the country's first aeromagnetic geological survey in 2004

In 2010 work progressed well towards establishing the mine and processing facilities, culminating in the commissioning of the first of two dry mobile crushing facilities, and the occasion of the first production bench ore blast, both in December 2010.

Post year end, the focus has been on continuing to produce stockpile material building up to the establishment of sufficient material to transfer to the stockyards, once completed, at Pepel, and to complete the scoping and design of the 12Mtpa wet processing facility. That work has now been completed and commissioning of that facility is expected by year end.

The two mobile crushers have sufficient capacity to stockpile material such that, once shipping starts, the stockpiles at the mine will be run down so that the targeted production of c.2.0Mt in Q4 can be maintained prior to commissioning of the Phase IB wet process facility, expected prior to year end.

With that facility commissioned, installed capacity at Tonkolili will comfortably support our steady state Phase I DSO target of 12Mtpa. The resource will be capable of supporting production in Phase I for around nine years, at an expected cost of $27.50/t of product.

## Phase II

Phase II involves the exploitation of the saprolite layer, between the duricrust and the underlying primary magnetite bounded ironstone formation ("BIF"). The saprolite is contained within a layer that is approximately 30–60m thick, including 10–20m of a transition zone above the primary BIF. Saprolite is weathered BIF from which much of the quartz and silicate matrix has been eroded away, leaving it relatively soft and we expect low mining, crushing and grinding costs because of this.

The saprolite will require simple washing and cyclone/spiral-based upgrading to produce a good quality hematite sinter fines concentrate, with an estimated premium grade of 64%. In addition, although the refurbished narrow gauge rail line to be used to transport Phase I production will be able to cope with the additional 23Mtpa of hematite concentrate produced in Phase II, there will need to be a new 37km rail spur built to access a new purpose built port facility at Tagrin Point. This new facility will initially handle the additional 23Mtpa of hematite concentrate.

The approximately $2bn Phase II expansion project is dependent on the provision of funding, following which it is expected it will be 30 months before first production. The ability to load Cape Size vessels alongside the new Tagrin Point port will mean that there is no requirement to incur the $5.20/t

# 78%

Across the Tonkolili project there were, at the end of 2010, 3,160 persons employed by AML and its contractors, 78% of whom were local persons

**Did you know?**
AML took a delegation of chieftains, villagers, community leaders and employees to South Africa for rail operation's safety orientation

estimated transhipment charge. This more than offsets the lower mass yield to concentrate (between 30 and 40% for saprolite versus a mass yield of 85% for the DSO) and power requirements on site, and the cost to ship is estimated at $21/t of product for this phase.

AML is in receipt of the Definitive Engineering Study ("DES") for the Phase II project, and a value engineering analysis will be initiated to review operational ability and review estimates. With the requirement to provide documentation for any potential debt financing for Phase II, we believe it is expedient to increase the level of detail in the DES, and will commission a Definitive Feasibility Study. A DFS, to fully scope the mine expansion, the ore processing facility and concentrator, the new 37km rail spur from Lungi Loi to Tagrin, and the new regional-scale deep water port facility at Tagrin Point, is expected to be completed in the course of the year.

## Phase III

Phase III involves the production of up to 45Mtpa of magnetite concentrate from the primary magnetite/BIF mineralisation that underlies the secondary duricrust and saprolite mineralisation at Tonkolili. The Phase III feasibility study programme was suspended in the second quarter of 2010 to allow for the completion of development plans for Phases I and II.

Phase III involves a significant, approximately $6bn expansion of the operation including the construction of a large-scale magnetite concentrator on-site. Work conducted to date suggests that the Phase III mining operation will have a very low strip ratio of 0.6:1. In-pit conveying will be used to transport material to the plant. A standard processing route involving crushing and relatively fine grinding to 80% passing 38µm (this is a staged process in which only 42% of the initial feed is subjected to this final stage of grinding), together with staged low-intensity magnetic separation ("LIMS") and a cleaning flotation stage (to further reduce silica and alumina levels) will produce a high-grade, low-impurity magnetite concentrate suitable for the production of blast furnace pellets. Testwork yielded a concentrate grading 70.3% Fe, 2.95% $SiO_2$, and 0.43% $Al_2O_3$ and 0.01% P with a mass recovery of 26.5%.

Phase III will also involve the construction of an all-new, 220km, dedicated standard gauge heavy-haul rail line from the mine to the port at Tagrin Point. Longer trains, higher axle loads, larger wagons and higher transport speeds should lead to a high capacity, efficient, expandable rail transport system. The savings to be expected by using a high speed railway are in the region of $3/t, and this again partly offsets the lower mass yield, and the higher power requirements, and the expected cost of Phase III production is currently estimated at around $23/t.

**Summarised project parameters**

| Production | Incremental capacity | Max production | Metallurgy | Commence | Infrastructure | Capex $bn | Phase Opex $/t | Life |
|---|---|---|---|---|---|---|---|---|
| Phase I (DSO) | 12Mtpa of Direct Shipping Ore | 12Mtpa | Mass Yield: 85% DSO c.59% | Q4 2011 | Pepel Port + Transhipment Narrow Gauge Rail | 1.2 | $27.50/t | 9 years |
| Phase II (Saprolite) | +23Mtpa of hematite conc. | 35Mtpa | Mass Yield: 30–40% Hem Conc 64% | 30 months from funding | Tagrin Port Narrow Gauge Rail | c.2 | c.$21 | 18 years |
| Phase III (Magnetite) | +45Mtpa of magnetite conc. | To be determined | Mass Yield: 26 Mag Conc 70%+ | 2017 (subject to funding) | Tagrin Port Standard Gauge Rail | c.6 | c.$23 | 60+ years |

# Mining and processing project plan and update

**Phase I involves the production of 12Mtpa of DSO hematite ore from the surface duricrust zone. The Company is proposing a contract mining operation with simple crushing and screening to produce DSO hematite products. The two mobile dry (crushing and screening) plants are operating on-site, each providing 1.5Mtpa of capacity. The additional Phase IB 12Mtpa capacity wet plant is scheduled to be commissioned in December 2011. The planned delivered output of Phase I is 12Mtpa.**

**$1.2bn**

The expected cost to completion of Phase I up to and including "first ore on ship"

Initial testwork has shown that in Phase I it should be possible to produce 55% lump (<31.5mm, >6.3mm) and 45% sinter fines (<6.3mm) products with an average grade of around 59% Fe and a mass recovery of 85%.

### Operational update

During the year the Company made considerable progress in delineating the iron ore resource at Tonkolili. Starting the year with a JORC compliant resource of 5.1Bnt, February saw this more than double to 10.5Bnt.

The realisation that the major magnetite deposit was overlain by weathered material that may constitute a direct shipping ore source led to the development of the three phased approach as described earlier, and the exploration effort then concentrated on the delineation of the material that would then be used for Phase I and Phase II.

This culminated in the announcement of our increased resource of 12.8Bnt in late December 2010, supported by almost 200,000m of drilling.

In parallel with the Phase I and II delineation drilling, the Company embarked on a detailed engineering study to support the Phase II development and exploitation of the saprolite resources. Over time the original scope for Phase I moved from 8Mtpa to 12Mtpa and for Phase II from 17Mtpa to 23Mtpa. Ausenco and WorleyParsons have produced a study detailing the operational and capital parameters of Phase II, which is currently under review by management.

The first production blast occurred at Simbili just before year end, along with the commissioning of the first of two lines of our 3Mtpa dry mobile crushing plant. Work is progressing well towards the establishment of our Phase IB 12Mtpa wet process plant, scheduled for completion in December.

Contract mining is ramping up to full capacity, expected in 2012 and plant operations have also been contracted.

**Key managers for mining**

**Clinton Keenan, Acting VP Mining**

Clinton has over 13 years of professional experience in mining operations, both in open cut and underground metalliferous mines. His base of experience covers maintenance, operations and technical services, predominantly in operations across Australia. Clinton was the Group Manager of Technical Services for Fortescue Metals Group before joining AML, where he carried responsibility over brown-fields Project Management, Metallurgy, Assets (Mechanical and Electrical) and finally Hydrogeology. The former team was responsible for the collection of the Australian Water Association award for innovation with regard to its successful reinjection and management of 20Gl of water at their Cloud Break operations. He previously held positions with Consolidated Minerals, Downer EDI and Macmahon Contractors. Clinton's mechanical engineering background is being further strengthened through the completion of a MBA, he is a member of the Institute of Engineers Australia.

**Marcus Reston, GM Geology and Exploration**

Marcus has over 20 years of professional experience in minerals exploration and geosciences. He has significant experience in geological project management, including the ongoing Tonkolili resource definition programme. Prior to joining AML in 2007 he worked as an independent consultant and held senior roles with Compass Resources in Australia. He previously held positions with Western Mining Corporation exploration projects in Western Australia and SE Asia. Marcus has an Honours Bachelor of Science degree in Earth Science and a Masters of Science in Exploration Geochemistry. He is a Fellow of the Geological Society and Member of the Australian Institute of Geoscientists.

**Pat Ramunno, GM Mining**

Pat joined AML in August 2009. He has over 30 years of mining experience in large open cut mines including processing and maintenance. Pat has worked with companies including Rio Tinto, BHP Billiton, Newmont and joined AML from Fortescue Metals Group where he held the positions of Process Manager and Alternate General Manager, he has been involved in a number of Greenfield mining operations and has extensive overseas experience, such as Papua New Guinea and Algeria.

**Gavin Fletcher, GM Processing and Metallurgy**

Gavin joined AML in 2011. He is a Metallurgist with 16 years industry experience across various commodities including Iron Ore, Magnetite, Gold and Diamonds. Gavin played a pivotal role in the establishment of processing operations at Fortescue Metals Group and brings a wealth of experience in all aspects of start up Operations gained in Australia, Africa and Europe. Previous roles have covered Project Management, Client representation, Commissioning and Operational Management with a number of large and small players in the industry.

# Infrastructure, Rail and Port project plan and update

> 200km

Iron ore products will be transported by rail 200km from the mine site to the port of Pepel

> Did you know?

Over 100Mt of high grade hematite was exported to Europe from Pepel Port between 1933 and 1975

Iron ore products will be transported by rail 200km from the mine site to the port of Pepel. Part of this line was constructed originally in the 1930s to service the Marampa iron ore mine, and has been disused since the 1980s. All 74km of existing narrow gauge rail line from the port of Pepel to Lunsar have been completely reconstructed and a further 126km of new line is in the process of being laid from Lunsar to the mine site at Tonkolili.

This work is being carried out by four contractors. Three bridges have been refurbished and three new bridges constructed, the largest of which has a span of 60m.

A fleet of 19 leased locos is planned to be used with a total of 456 cars, each carrying around 60t.

Historically the highest throughput at Port Pepel is believed to have been around 7.5Mtpa. With the requirement to ship 14Mtpa (including 2Mtpa of third party access), a new train unloading station and double stockyard is being constructed. Each of the two stockyards will have a capacity of about 400,000t. The 730 metre jetty conveyor and shiploader will be refurbished and upgraded to allow 4000t/h to be loaded from each stockyard. Material will be reclaimed off the stockpiles initially by four front-end loaders fed directly from the train unloader, and latterly supplemented by an integral stacker/reclaimer.

The shiploader consists of two quadrant type shiploaders capable of loading a Handysize vessel without warping. Two Handysize self-unloading bulk carriers (34,000t capacity each) will be utilised as shuttle vessels from the Port Pepel facility to the Freetown inner or outer anchorage. On arrival at the anchorage point, these vessels tranship to larger Panamax or Cape size vessels.

Power for Phases I and II is expected to be provided by on-site high-speed diesel and low-speed HFO generators, respectively.

The $200m World Bank-sponsored Bumbuna hydro-power scheme is located 20km from the mine site and commenced generation in 2009. Current installed capacity is 50MW, although it may be possible to expand this to 160–180MW by further augmentation of the Bumbuna scheme. A number of third-party groups (from China, Canada and Norway) have undertaken preliminary investigations into the possibility of constructing two new hydro plants upstream of the Bumbuna dam, at Yiben 1 and 2, which could increase installed capacity to 400MW.

## 456

Iron ore wagons each weighing 20t empty and capable of carrying 60t of ore have been ordered from China for Phase I

### Did you know?

The new rail from Lunsar to Tonkolili is 126km long and required almost 8 million cubic metres of ground to be moved

### Operational update

Pepel Port rehabilitation is well under way. Civil concrete contractors were mobilised in September 2010, in preparation for the structural and mechanical contractors who mobilised in February to construct the first stockyard, conveyor gantries and transition towers.

Looking ahead, the stacker for the first 400,000t stockyard has been constructed and is en route to the port. Development has begun on the automation of the port operating plant. Dredging and marine engineering contracts have been awarded, and dredging of the Pepel Channel completed.

Two transshipment vessels, to transport our product from the 12 metre draft Pepel Port to the deepwater channel 32 nautical miles distant, have been contracted and will be delivered for the commissioning of the materials handling facility.

In addition to this work at Pepel for Phase I, we have also commenced preparation work for the design and development of Phase II Tagrin Point Port. The Marine and Landside geotechnical work and environmental & social baseline studies are well advanced in support of the engineering design for Phase II.

### Key managers for Infrastructure

**Jack Rowley, COO**

Mr Jack Rowley was the founding shareholder and Managing Director of Calibre Global Pty Ltd, which specialised in EPCM delivery to the major participants in the iron ore industry providing services covering all operations from pit to port. Calibre's principal customers were Rio Tinto and BHP Billiton's Australian operations across various commodities, but primarily iron ore. In the iron ore sector Mr Rowley has been involved across greenfield, brownfield and expansion projects in projects such as Rio Tinto's Eastern Range, Yandicoogina, West Angelas, Cape Lambert, BHP's Nelson Point, Pilbara, Port Headland and Brockman.

**Karl Sinko, General Manager – Projects**

Karl Sinko joined African Minerals Limited in 2010 with 35 years of engineering, construction management, EPCM and EPC experience in major infrastructure, mining and petrochemical projects. Karl came to AML from WorleyParsons, where he was the Executive Director for WorleyParsons Ukraine LLC, and the Project Manager on the Ferrexpo-Poltava Iron Ore Project. Karl's extensive experience in the civil and mining industry includes delivery of major infrastructure and mining projects in Zambia, Botswana, South Africa and Europe.

**Steve Allard, VP Port and Rail ("ARPS")**

Steve Allard joined AML Limited in 2009. He holds a degree in Mechanical Engineering in addition to 30 years of general management and operational experience in mining and infrastructure. Steve came to AML from Fortescue Metals Group where as the Head of Port he carried responsibility for the successful transition from design and construction into operations. Steve's extensive experience in the mining industry includes operational responsibility for large open cut mines, ore processing and metals refining. Outside of the mining industry Steve has been responsible for management of large thermal and hydro-power generation facilities in addition to experience in building construction together with extensive knowledge and experience in the fields of port operations and the maritime industry.

ArTiMist – AML is a major supporter of ProtoPharma UK developing a unique groundbreaking multiple dose anti malarial spray

Find out more:
african-minerals.com/csr

# Corporate responsibility project plan and update

**In July 2010 AML developed an Environmental Management Plan ("EMP") for the Tonkolili Iron Ore project. The EMP presented the methods and procedures which AML will apply to protect the environment during the life of the project. The EMP contains procedures and specifications that control how work shall be undertaken so as to minimise adverse effects from the project.**

**60yrs**

Tonkolili has an expected mine life of more than 60 years including all three Phases.

**Did you know?**

AML was awarded the prestigious "International Year of Planet Earth Award 2009" as a result of the significant work conducted with local communities in relation to building schools and establishing scholarships for children at all levels of education.

## Community

AML constantly strives to be a leader in the field of social development and is committed to the sustainable development of the Tonkolili project. We are committed to supporting local communities in Sierra Leone working with national, regional and local stakeholders to support communities in Sierra Leone via innovative social development and environmental projects.

AML continues to introduce affordable and clean drinking water into areas surrounding its operations, provide education to local communities and supply equipment for the development of the local agricultural economy. AML is committed to building infrastructure in its regions of operation and also works closely with the local district and community leaders to promote regional pride and unity through sporting, education and cultural events.

AML has established two development funds, one in relation to community development and one in relation to environmental and social protection and impact mitigation. Each fund will receive a per annum sum equivalent to 0.1% of AML's gross annual sales.

In 2010 AML awarded a further 800 scholarships to local children in the Tonkolili District to attend Junior and High School. This represents about 30% of the region's children.

Throughout 2010 AML has been endeavouring to assist with the eradication of malaria and increase awareness of the critical health impacts of malaria, water borne diseases and HIV/Aids. The direct action of industry in clearing debris, draining standing water, and general activity, goes a long way to diminishing the prevalence of Malaria, but drugs remain the principal weapon. Malaria remains the largest single reason for lost time incidents in our Company.

The Company continues to support ProtoPharma to develop a unique treatment which uses a multiple dose spray device for delivery under the tongue known as ArTiMist™. AML's funding was essential for the production, stability, laboratory testing and regulatory support to bring the drug to early trial stages. Wide spread use is expected before 2012.

As the project in Tonkolili advances, AML is leading the way in social redevelopment and cultural strengthening. The Company has taken a leading role in advising on a local agricultural programme designed to encourage the sustainable farming of produce, not only to feed the growing mining community at the Tonkolili camp but to sell to other villages and abroad. As part of these efforts, AML has donated tractors and other farming equipment to the local community to assist with agricultural development.

> 20yrs

Phase I and II will support mining for more than 20 years, yet will deplete only 10% of the Tonkolili ore resource

Consultation Committees have been established in seven chiefdoms to manage community needs for Phase I project activities; crop compensation amounts have been agreed through consultation with affected parties and the Ministry of Agriculture, Forestry and Food Security; a Social Impact Assessment for Phase I has been completed including a Stakeholder Engagement Plan, Community Development Action Plan and a Resettlement Policy Framework; and employment offices are currently being opened up in three key chiefdoms to provide easier access for communities to AML job opportunities.

In February 2011, AML voluntarily paid the Government a $10m lump sum to be offset against future employer tax contributions to enable the Government to advance a number of key infrastructure projects.

## Environment

The most significant achievement from an environmental and corporate sustainability perspective in 2010 was successfully receiving the environmental licence enabling AML to start construction.

The business provides regular communications and spends time with key stakeholders helping them to understand the AML business, plans for the future and mutual value for all. Independent audits to measure community involvement and capture feedback and action items raised by the community are also conducted on a regular basis.

AML has undertaken an extensive Environmental, Social and Health, Impact Assessment ("ESHIA") of its Phase I component and an ESHIA for Phase II is currently under way. The ESHIA was managed by international consultants, WorleyParsons and continues to involve international experts such as Kew Gardens from London, with whom AML intend to sign a MoU concerning sustainable development and conservation practices. A live, comprehensive Environmental & Social Management Plan ("ESMP") continues to be developed and applied to guide the ESHIA investigations and implementation of the construction works. A range of ESHIA studies and monitoring are ongoing, well in advance of operational mining and AML is working in partnership with the Sierra Leone regulator SLEPA ("Sierra Leone Environmental Protection Agency").

AML is currently developing its detailed E&S policies and mission statements to support operations and strives to promote sustainable private sector development in Sierra Leone, helping to reduce poverty and improve people's lives. AML believes that sound economic growth, grounded in sustainable private investment, is crucial to poverty reduction. Furthermore, the ESHIA studies have revealed issues such as wholesale deforestation in the country due to slash and burn agriculture and AML has targets for large scale re-forestation in the project affected areas, financing and developing sustainable agro-forestry programmes to improve livelihoods and reduce dependence on valuable forest ecosystems.

## Key manager for non technical

**Victoria Sherwood VP Services**

Victoria joined AML in September 2010. Victoria is a qualified engineer and accountant with a wealth of experience spanning both industry and consulting. Victoria has worked with companies including WorleyParsons, Newcrest Mining Ltd and Fortescue Metals Group. Prior to this Victoria was a Principal with Booz & Co, leading their Organisation and Change Practice across Australia, New Zealand and South East Asia with an emphasis on large scale transformational change programmes in the mining, power and water sectors. Victoria also brings experience of working with governments and private sector in developing nations rich in mineral and metal assets resolving social, community and environmental issues.

# Principal risks and uncertainties

**The tables below set out the major strategic and operational risks which face the Group, their potential impact on our future performance, and our strategy for managing them.**

| Risk | Impact | Mitigation | Further information |
|---|---|---|---|
| **Operational and market risks** | | | |
| Going Concern Risk | There are material uncertainties which exist for the delivery of the Tonkolili project that may cast significant doubt over the Group's ability to continue to operate as a going concern with its current resources. | The Directors have considered these risks and are confident that the Group will continue to have adequate resources to continue in operation for the foreseeable future. | See the Going Concern disclosure, note 2 on page 54 for the full details of risk and mitigation. |
| Fluctuations in iron ore prices | As a single commodity producer, changes in the iron ore price and market could have a material positive or negative impact upon the Group and the development of its projects. | We manage the risk of fluctuations in the iron price by ensuring that our operations are constructed as low-cost, efficient operations. | See Our market on page 4. |
| Estimates of resources | There are inherent uncertainties in the estimation of iron ore resources and in projecting future rates of iron ore production. Fluctuations in these variables may have a material impact on the long-term financial condition and prospects of the Group. | The Group adheres to the best practice standards set out in the Australasian Code for Reporting of Mineral Resources and Ore Reserves and uses independent, external consultants to review all exploration work undertaken and to produce resource and reserve estimates. | See page 25. |
| Project development | The development of mining projects can be affected by a multitude of factors, many of which are outside the Group's control (such as weather). A failure to effectively manage these factors could result in delays in construction or increases in capital costs. | The Group has appointed an extremely experienced management team who have significant experience of developing similar projects. | See Corporate governance statement on page 42 and Mining and processing project plan and update on pages 28 and 29. |
| **Financial risks** | | | |
| Funding and going concern | The delivery of the Group's strategy will require significant additional capital to fund the development of the Tonkolili project. Delays in the completion of Phase I of the Tonkolili and access to the resulting cash flows could affect the Group's ability to trade as a going concern. Failure to obtain additional financing as needed, or on terms which are acceptable, could mean the Group is not able to fulfil its strategy. | The Group has detailed cash flow forecasts through to December 2012 that support the conclusion of the Directors that the Group will be able to operate as a going concern with current resources. The cash flow forecasts are dependent on completing construction and development of all aspects of Phase I of the Tonkolili iron ore project to enable the Group to start generating revenue from Q4 2011. In the event this timetable is not achieved, or the costs to complete are significantly higher than those forecasted, the Group has several options by which this additional financing can be raised. | See note 2 to the Accounts on page 54. |

| Risk | Impact | Mitigation | Further information |
|---|---|---|---|
| **Financial risks (continued)** | | | |
| Costs | There are inherent uncertainties in the estimated development and operating costs of the mine, including the costs of skilled labour, power, water and fuel. Fuel & labour costs are a major component of the total cost of the projects and any increase in the price of fuel may have a material adverse effect on the Group's performance. | We ensure that our operations are constructed as low-cost, efficient operations. Our Phase I production has a relatively low power requirement. In the future we expect to benefit from the availability of abundant hydro-electric potential. | See summarised project parameters on page 27. |
| **Non-financial risks** | | | |
| Employees | The Group's ability to successfully deliver its projects is dependent upon the successful recruitment and retention of key engineering, financial, technical and marketing personnel. | The Group's remuneration policy is to pay a competitive salary that attracts and retains personnel of the highest quality, having regard to their experience and the nature and complexity of their work. Individual remuneration for executives is linked to the Group's long-term performance through the award of share options. Levels of pay in Sierra Leone are significantly higher than the national average. The Group is committed to transferring skills to the local workforce as far as is possible. | For Directors, see pages 43 and 44. |
| Health and safety | The development and operation of large-scale, complex operations such as the Tonkolili project is inherently hazardous. Safety regulations in Sierra Leone are not well developed and adopting global best practice standards will be challenging. | The Group is implementing world class health and safety policies which exceed local legal standards. | |
| Environment | The Group is subject to environmental regulations. Non-compliance could result in significant impacts to the development and future operation of the Group's projects. Environmental impacts also have the potential to significantly impact community relations. | AML is committed to sustainable development and has undertaken an extensive Environmental, Social and Health Impact Assessment of Phase I. A live, comprehensive Environmental & Social Management Plan continues to be developed in partnership with the Sierra Leone regulator SLEPA. | See Corporate responsibility project plan and update on pages 32 and 33. |
| Political, legal and regulatory | There is potential for the Group's operations to be affected by instability and changes to legal, regulatory or fiscal frameworks in Sierra Leone. This could include, amongst other things, political unrest, changes to royalty or tax rates, the withdrawal or variation of permits. | The Group works closely with the local communities where it operates in order to maintain its social licence to operate. The Group also maintains a regular, transparent and open engagement with the Government and regulatory agencies of Sierra Leone. | See pages 20 and 24. |
| Community relations | The development of the Group's projects could negatively impact communities near its operations due to resettlements or the ongoing development of the Tonkolili mine and its associated infrastructure. | AML is committed to building strong relationships with national and local governments and organisations. Consultation Committees have been established in seven chiefdoms to manage community needs for Phase I project activities. | See Corporate responsibility project plan and update on pages 32 and 33. Note our contribution to a community development fund, page 24. |
| Corporate governance | The Group's history and development has resulted in a Board and shareholding structure which varies from expected norms in a number of ways. For example, the Board does not currently have a majority of Independent Directors. | The Group has appointed a number of additional Independent Non-Executive Directors and intends to appoint additional Directors to obtain a majority of Independent Directors. | See Corporate governance statement on page 42. |

# KPI reporting

**AML currently uses a range of financial and non-financial key performance indicators ("KPIs") to monitor and measure its performance however, in order to reflect the Company's development into an operating mining company these KPIs will evolve significantly over time. We will develop and implement a range of KPIs which reflect our focus on operational excellence, strong risk management capabilities, financial discipline and sustainable development.**

| Indicator | Description |
|---|---|
| **Financial** | |
| Total shareholder return | Total return, calculated from the growth in share price together with any dividend income from the shares, with dividend income assumed to be reinvested. |
| Capital investment | New and continuing investment in projects. |
| Net Cash | Cash and cash equivalents less borrowings. |
| **Non-financial** | |
| Fatalities | |
| LTIFR | Long Term Injury Frequency Rate per million hours worked. |
| Employee diversity (localisation)/turnover | Diversity of workforce – percentage of work force who are Sierra Leonean nationals (including contractors). |
| Corporate social investment | Total investment in community per annum. |

| 2010 | Target | Comment |
| --- | --- | --- |
| | | |
| We achieved a TSR of 0.47% during 2010. | We do not have a formal TSR target. However, we are committed to creating long-term shareholder value and aim to outperform our peer group. | As we bring Phase I into production and benefit from the associated cash flows, we expect a significant improvement in TSR in 2011. |
| We invested $380m in the Tonkolili project during the year. | As at 31.12.2010 we expected further investments of $720m in 2011. | We expect levels of capital investment will continue to be significant as we continue the phased development of Tonkolili. |
| We had cash and cash equivalents of $372.4m at 31.12.2010. | We do not have a formal target for net cash, however, we manage our finances conservatively and maintain an appropriate financial headroom. | Cash and cash equivalents rose significantly on 2009 levels ($76.6m) following the significant capital raises undertaken in the year and was further boosted after the year end following the closing of secured loan facility. |
| | | |
| | | |
| A sub-contractor recorded one fatality in 2010. | We aim to record zero fatalities in line with our aim of achieving zero harm. | Unfortunately one of the Company's diving sub-contractors sadly lost his life in March 2010. |
| 2.625. | We continuously review our safety processes and are working with our contractors and healthcare team on the ground to ensure that such incidents are avoided entirely with the aim of zero harm. | Our reported LTIFR covers the period from July to December 2010 and combines all mining operations and construction projects, including contractors. |
| At end December 2010, 78% of the Company's workforce (including contractors) are Sierra Leoneans. | We do not have a formal target for the proportion of workforce who are Sierra Leonean, however, we are committed to increasing it over time. | We aim to increase levels of employment of Sierra Leoneans over time to ensure maximum benefits from our operations are passed to local communities. |
| | We have established two funds to support community development and to fund environmental and social protection and impact mitigation. Each fund will receive a sum equivalent to 0.1% of AML's gross annual sales per annum. | AML is committed to supporting local communities around the Tonkolili and we have already invested significant sums in areas such as the provision of clean water supplies project and the supporting the provision of education. We expect these sums to increase significantly as we develop our operations. |

# Board of Directors

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## Executive Directors

**01 Vasile (Frank) Timis**
**Executive Chairman**
Frank Timis has been the Executive Chairman of AML Limited since 19 December 2006. He was the founder and was former Executive Chairman, President and Chief Executive Officer of European Goldfields Ltd., a company listed on the TSX Exchange and on AIM. He was also founder and former Executive Chairman of both Regal Petroleum Plc, which is listed on AIM and of Gabriel Resources Ltd., a company listed on the Toronto Stock Exchange.

**02 Alan Watling**
**CEO**
Alan Watling joined the Board on 1 February 2009. Alan has nearly 30 years of experience in the iron ore industry including over 20 years with Rio Tinto Group managing infrastructure facilities, with a particular focus on port and heavy haul rail for iron ore mining operations. Immediately prior to joining AML, Alan was Chief Operating Officer at Fortescue Metals Group, which took a greenfields port, rail and mine project into large scale production within a period of five years. Fortescue is now the third largest iron ore producer in Australia and operates one of the heaviest haul railways in the world.

**03 Miguel Perry**
**CFO**
Miguel joined the Board on 18 October 2010 and was most recently the Chief Financial Officer and a member of the Board of Directors of Eurasian Natural Resources Corporation plc, a leading diversified metals and mining group and a member of the FTSE 100. During his time with ENRC Miguel managed a successful IPO, raising $3bn in December 2007 and obtaining a listing on the main board of the LSE. He has significant experience of capital markets, M&A, Investor Relations and Risk Management.

Prior to joining ENRC Miguel was a partner at PricewaterhouseCoopers ("PwC").

**04 Gibril Bangura**
**Executive Chairman, AML Sierra Leone**
Gibril Bangura, a founding shareholder, has been a Director of the Company since 30 January 1998 and Executive Chairman of the Company's Sierra Leone subsidiaries since 1996. He is also a Non-Executive Director of African Petroleum Corporation Ltd.

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## Non-Executive Directors

### 05 William Murray John
Mr. John, aged 50, is the President and Chief Executive Officer of Dundee Resources Limited, a subsidiary of Dundee Corp. Mr. John also holds senior positions at several other publicly traded companies including Corona Gold Corporation, Dundee Precious Metals Inc., Breakwater Resources Ltd. and Iberian Minerals Corp. Prior to joining the Dundee group of companies, Mr. John graduated from the Camborne School of Mines in 1980, received a Master of Business Administration degree from the University of Toronto in 1992 and had extensive experience working as a mining engineer.

### 06 Dermot Coughlan
Dermot Coughlan, aged 74, joined the Board in May 2010. Mr Coughlan is currently Chairman and Chief Executive Officer of Derland Holdings Inc, a private investment holding company. Mr Coughlan, a Chartered Certified Accountant, has held positions with Rio Tinto Zinc Corporation PLC and also with Alcan Industries and Indal Limited. From 1984-2000, Mr Coughlan was the Founder, Chairman and Chief Executive Officer of Derlan Industries Ltd, a Public Company with multiple operations in Aerospace, Engineering and industrial markets in North America and Europe. Mr Coughlan has also served as Chair of Audit and Human Resources Committees and also served on the Governance Committee for several public companies. Mr Coughlan currently chairs the Company's audit and remuneration committees.

### 07 Liu Guoping
Mr. Liu Guoping, aged 59, joined the Board on 15 July 2010. He is a Senior Economist and Vice President of China Railway Materials Commercial Corporation ("CRM"), a large-scale State Owned Enterprise. CRM is one of China's largest integrated service providers in the railway industry and the largest steel trader in China. It is a significant shareholder in AML, owning approximately 12.3% of the Company. Mr. Liu has been Vice-President of CRM since 1997.

### 08 Roger Liddell
Roger Liddell, aged 54, joined the Board on 15 November 2010. He recently retired as the Chief Executive of the London Clearing House, the world's largest clearing house clearing numerous equity markets, futures and options, commodity markets and over-the-counter derivatives. Prior to joining the London Clearing House in 2006, he worked for Goldman Sachs for approximately 13 years, eventually becoming Managing Director and Head of Global Operations. His career prior to joining Goldman Sachs included a number of years at Citibank NA and with British Coal, where he held various management positions.

### 09 Bernard Pryor
Bernard Pryor, aged 53, was appointed as an Independent Non-Executive Director taking effect from 12 July 2011. Bernard is currently Chief Executive of Q Resources plc. Between 2006 and 2010 he held senior executive positions within Anglo American PLC as Head of Business Development, and CEO of Anglo Ferrous Brazil Inc. From 2000 to 2006 he was Director and Chief Operating Officer of Adastra Minerals Inc, developing the Kolwezi tailings deposit in DRC. Before that he held several global minerals consulting positions.

### 10 Nina Shapiro
Nina Shapiro was appointed as an Independent Non-Executive Director on 12 April 2011. Ms. Shapiro, aged 62, recently retired from her last role as VP, Finance and Treasury and member of the Management Group, for the International Finance Corporation of the World Bank Group. She has had a distinguished career serving for more than 30 years in the World Bank, well respected for innovative work in the emerging and developed capital markets, as well as in project and structured finance.

### 11 Mark Ashurst
Mark Ashurst, aged 52, was appointed to the Board on 22 January 2008. A senior investment banker with a broad range of corporate finance and broking skills gained from over 20 years' experience in the City of London, Mark has worked for BZW Limited, Hoare Govett Limited and, most recently, Canaccord Adams Limited. He has advised both UK and overseas listed companies and has significant expertise in IPOs, fund raisings and mergers and acquisitions. Mark graduated from Sheffield University with a degree in law and qualified as a Barrister. He is also a Fellow of the Institute of Chartered Accountants in England and Wales having qualified as a Chartered Accountant with Price Waterhouse in London.

# Directors' report

The Directors present their annual report on the affairs of African Minerals Limited (the "Company") and its subsidiaries (the "Group"), together with the financial statements and auditors' report, for the year ended 31 December 2010.

### Principal activities
The principal activities of the Group are the exploration for and mining of various minerals (principally iron ore) located in Sierra Leone, together with the design and construction of the infrastructure required to transport such products to market.

### Business review
A review of the business during the year and to date with comments on future developments is contained in the Chairman's Statement and Review of Operations.

### Results and dividends
The results of the Group appear in detail in the financial statements. The Directors do not recommend the payment of a dividend and will not make such recommendation until they consider it prudent to do so, having regard to the need to retain sufficient funds to finance the development of the Group's activities.

### Post-balance sheet events
Disclosed in note 21.

### Directors
The Directors who held office during 2010 were as follows:
Vasile Frank Timis
Alan Watling
Gibril Bangura
Miguel Perry (appointed 18 October 2010)
Mark Ashurst
Murray John
Dermot Coughlan (appointed 25 May 2010)
Liu Guoping (appointed 15 July 2010)
Roger Liddell (appointed 15 November 2010)
Jamie Alpen (resigned 31 January 2010)
Christopher Duffy (resigned 15 November 2010)
Craig Smith (resigned 1 September 2010)

### Directors' interests
The Directors who held office at 31 December 2010 had the following beneficial interests in the ordinary share capital of the Company:

| Number of shares held by: | **31 December 2010** | 31 December 2009 |
|---|---|---|
| Frank Timis | **40,810,002*** | 41,375,002 |
| Alan Watling | **–** | – |
| Gibril Bangura | **7,792,624** | 5,292,624 |
| Miguel Perry | **–** | – |
| Mark Ashurst | **61,350** | – |
| Dermot Coughlan | **–** | – |
| William Murray John | **–** | – |
| Liu Guoping | **–** | – |
| Roger Liddell | **–** | – |

* See RNS dated 22 June 2010.

### Directors' share options
Details of Directors' share options are provided in the Directors' remuneration report.

### Supplier payment policy
The Group's policy is to agree terms of payment with suppliers for each transaction and the Group ensures that they abide by the terms of payment.

**Substantial shareholdings**
As at 31 December 2010, shareholdings of 3% or more of the issued share capital notified to the Company were:

| Name | Number | % Holding |
|---|---|---|
| Timis Diamond Corporation[1] | 40,810,002 | 12.57% |
| China Railway Materials Commercial Corporation | 33,579,454 | 10.57% |
| M&G Investment Management | 31,812,394 | 9.80% |
| Capital Group Co's Inc | 29,941,998 | 9.22% |
| BlackRock Investment Management | 29,007,656 | 8.94% |
| Goodman and Co | 16,969,738 | 5.23% |
| Goldman Sachs | 10,319,507 | 3.18% |
| RAB Capital Limited | 9,892,260 | 3.05% |

1 Frank Timis is a beneficiary of the Timis Diamond Corporation.

**Auditors**
Ernst & Young LLP has indicated its willingness to remain in office and a resolution to reappoint them as auditors will be proposed at the 2011 Annual General Meeting.

By order of the Board

**Frank Timis**
Executive Chairman

23 June 2011

# Corporate governance statement

The Company's shares were admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange on 15 February 2005. The Company is therefore subject to the AIM Admission Rules of the London Stock Exchange and is consequently not required to comply with the best practice corporate governance provisions contained within the Combined Code appended to the Listing Rules of the Financial Services Authority. However, the Directors have considered the provisions of the 2008 Financial Reporting Council Combined Code and summarise below how the principles have been applied in the Company, and the extent of current compliance.

**Principles of Good Corporate Governance and Code of Best Practice (the "Combined Code")**
African Minerals Limited is led by a strong and experienced Board which includes highly-experienced Non-Executive Directors and which retains full and effective control of the Company.

The Board's role includes determining the Company's strategy and goals and for approving short and medium-term plans to achieve these goals.

The Board recognises the importance of sound corporate governance and complies with most areas of the Combined Code. The Group does not comply with the combined code in that a majority of Non-Executives are not independent; the directors are actively engaged in recruiting for new members to join the Board. Furthermore, the Group did not have a Senior Independent Director for the whole year.

The Board is committed to improving levels of compliance with the Code over time, in line with the Company's growing stature.

The Board has delegated certain responsibilities to Board committees, including the Audit Committee and the Remuneration Committee, with membership of each of those committees consisting of Non-Executive Directors.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured, controlled and reported on, and for reviewing reports from the auditors relating to the accounts and internal controls systems. Dermot Coughlan chairs the Audit Committee.

The Remuneration Committee is responsible for making recommendations on the Company's framework of executive remuneration and for determining specific remuneration packages for each Executive Director. The Board as a whole determines the remuneration of Non-Executive Directors. Dermot Coughlan chairs the Remuneration Committee

Due to the disparate geographical locations of the Directors the Board met in full session five times during the year to 31 December 2010, with a further six meetings being held by conference call. The Board has scheduled eight meetings for the year ending 31 December 2011, with further ad hoc meetings being held when necessary. At each scheduled meeting, there is an operational and financial review which incorporates detailed commentary and analysis.

Prior to each scheduled meeting, Directors are sent a meeting agenda and set of Board papers to be discussed at the meeting. Additional information is provided as appropriate. While the Board retains overall responsibility for the control of the Company, daily management is conducted by the Executive Chairman, the Chief Executive Officer, the Chief Financial Officer and the Chairman, African Minerals Sierra Leone, in consultation with local executive management in the UK and Sierra Leone. They meet or hold regular discussions to review operational decisions, strategic plans and proposals to submit to the Board for approval.

According to the Company's bye-laws, Directors of the Company retire by rotation (although they can stand for re-election at the appropriate Annual General Meeting of shareholders) and the bye-laws also provide for a Board consisting of a minimum of three Directors.

**Relations with shareholders**
The Annual Report and Accounts contains information on the activities of the Company for the preceding year and is sent to each shareholder on the share register. The interim report is also sent to every shareholder. Management keep shareholders informed with regular news releases via the London Stock Exchange RNS.

The Annual General Meeting ("AGM") is the principal forum for dialogue with shareholders.

**Statement of Directors' responsibilities**
Bermudan Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the profit or loss for that year. The Directors are required to prepare the financial statements of the Company and Group on the going concern basis unless it is inappropriate to presume the Company and Group will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2010 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and for ensuring that the financial statements comply with International Financial Reporting Standards. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Ian Dickson**
General Counsel

23 June 2011

# Directors' remuneration report

**Remuneration committee**
The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for all Executive Directors and senior employees. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such Directors and employees on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The Remuneration Committee makes recommendations to the Board on the remuneration policy that applies to Executive Directors and senior employees. No Director plays a part in any decision about his or her own remuneration.

**Remuneration policy for Executive Directors**
The Group's remuneration policy for Executive Directors is to:
- pay a competitive salary that attracts and retains management of the highest quality, having regard to the Director's experience and the nature and complexity of their work;
- link individual remuneration packages to the Group's long-term performance through the award of share options and bonuses; and
- provide employment related benefits including the provision of housing allowances for Directors working permanently away from country of normal residence, medical and accidental death or disability insurance.
- There are four main elements of the remuneration package for Executive Directors and senior management:
  - Basic annual salary;
  - Performance-related bonuses;
  - Share option incentives; and
  - Benefits-in-kind.

**Salaries and benefits**
The Executive Directors receive certain employment related benefits, including the provision of housing or a housing allowance for Directors working permanently away from their country of normal residence, medical, accidental death and disability insurance.

**Directors' contracts**
All full-time Executive Directors have contracts of employment which can be terminated by the employee giving notice varying between one and 12 months and the Company giving notice varying between three and 12 months.

**Remuneration of Non-Executive Directors**
The Non-Executive Directors receive fees for their services, which are agreed by the Board as a whole.

Directors' remuneration, including Non-Executive Directors, during the year was as follows:

| **Year to 31 December 2010 Total ($)** | Year to 31 December 2009 Total ($) |
|---|---|
| **11,575,571** | 5,556,715 |

The remuneration of the highest-paid Director was as follows:

| **Year to 31 December 2010 Total ($)** | Year to 31 December 2009 Total ($) |
|---|---|
| **3,931,434** | 1,869,032 |

# **Directors' remuneration report** continued

### Directors' interests in share options

Details of options over the Company's ordinary shares held by Directors under the share option scheme (the "Option Plan") are as follows:

| | Exercise Price | Date of Grant | Expiry Date | At 1 January 2010 | Granted during the year | Exercised during the year | Lapsed during the year | **At 31 December 2010** | At 31 December 2009 |
|---|---|---|---|---|---|---|---|---|---|
| Frank Timis | 50p | 19 February 2009 | 18 February 2014 | 5,000,000 | – | – | – | **5,000,000** | 5,000,000 |
| Alan Watling | 50p | 19 February 2009 | 18 February 2014 | 1,345,455 | – | (448,485)† | – | **896,970** | 1,345,455 |
| Gibril Bangura | 50p | 22 November 2004 | 19 November 2010 | 1,000,000 | – | – | – | **1,000,000** | 1,000,000 |
| Miguel Perry | 423p | 15 November 2010 | 14 November 2015 | – | 2,250,000* | – | – | **2,250,000** | – |
| Mark Ashurst | 50p | 19 February 2009 | 18 February 2014 | 400,000 | – | – | – | **400,000** | 400,000 |
| Murray John | 315p | 22 June 2010 | 21 June 2015 | – | 500,000 | – | – | **500,000** | N/A |
| Dermot Coughlan | 349p | 22 June 2010 | 21 June 2015 | – | 500,000 | – | – | **500,000** | N/A |
| Jamie Alpen | 50p | 19 February 2009 | 18 February 2014 | 1,000,000 | – | (1,000,000)‡ | – | **–** | 1,000,000 |

* Subsequent to year end, 1,000,000 shares options were waived relating to years four to six, these will be replaced by an award under a Long Term Incentive plan.
† At the date of exercise, the Company's share price was 350p per share.
‡ At the date of exercise, the Company's share price was 413.4p per share.

Subject to the rules of the Option Plan each of the outstanding options is exercisable in three equal tranches upon the first, second and third anniversaries of the date of grant provided that the option holder remains a Director of the Company, or if the option holder's employment is terminated, within 90 days of the termination.

### Director's Remuneration

The remuneration of the Directors is as follows:

| US$ | Share-based payments | Performance share options | Basic salary and fees | Benefits | **Total 2010** | Total 2009 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Frank Timis | 311,999 | – | 386,618 | 277,855 | **976,472** | 926,896 |
| Alan Watling | 2,236,684 | 626,061 | 944,561 | 124,128 | **3,931,434** | 1,869,032 |
| Miguel Perry[1] | 903,334 | 939,835 | 158,598 | 1,166 | **2,002,933** | – |
| Craig Smith[2] | 483,852 | – | 188,289 | 35,563 | **707,704** | – |
| Jamie Alpen[3] | 1,701,187 | – | 178,519 | 24,774 | **1,904,480** | 853,454 |
| Gibril Bangura | – | – | 344,200 | 102,754 | **446,954** | 877,107 |
| **Non-Executive Directors** | | | | | | |
| Dermot Coughlan[4] | 624,600 | – | 95,081 | – | **719,681** | – |
| Mark Ashurst | 88,720 | – | 38,652 | – | **127,372** | 274,555 |
| Christopher Duffy[5] | 24,960 | – | 38,652 | – | **63,612** | 77,092 |
| William Murray John | 638,230 | – | 38,658 | – | **676,888** | – |
| Roger Liddell[5] | – | – | 18,041 | – | **18,041** | – |
| Liu Guoping[6] | – | – | – | – | **–** | – |
| Roy Pitchford | – | – | – | – | **–** | 7,826 |
| Peter Truscott | – | – | – | – | **–** | 670,753 |
| | 7,013,566 | 1,565,896 | 2,429,869 | 566,240 | **11,575,571** | 5,556,715 |

1 Appointed 18 October 2010.
2 Resigned 1 September 2010.
3 Resigned 31 January 2010.
4 Appointed 25 May 2010.
5 Christopher Duffy resigned from the Board on 15 November 2010 and Roger Liddel was appointed on that date.
6 Appointed 15 July 2010.

On behalf of the Board

**Dermot Coughlan**
Chairman of the Remuneration Committee

23 June 2011

# Independent auditor's report

to the shareholders of African Minerals Limited

We have audited the Group financial statements (the financial statements) of African Minerals Limited for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the shareholders, as a body, in accordance with our engagement letter dated 26 November 2010. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Bermudian Law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board'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 Group'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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**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 2010 and of its profit for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union.

**Emphasis of matter**

In forming our opinion on the financial statements, which is not modified we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. The conditions as explained in note 2 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

**Ernst & Young LLP**
London

23 June 2011

# Consolidated statement of comprehensive income

For the year ended 31 December 2010

| | Notes | 2010 $000's | (Restated) 2009 $000's |
|---|---|---|---|
| Net operating expenses | 4 | **(47,432)** | (17,606) |
| Impairment | 8 | **(4,453)** | – |
| Operating loss | | **(51,885)** | (17,606) |
| Loss on disposal of available for sale investments | 14 | **(2,277)** | – |
| Dividend income | 14 | **7,347** | – |
| Interest income | | **318** | 192 |
| Loss for the year from continuing operations | | **(46,497)** | (17,414) |
| **Taxation** | 12 | **10,345** | – |
| **Loss after taxation from continuing operations** | | **(36,152)** | (17,414) |
| **Discontinued operations** | | | |
| Profit/(loss) for the year | 24 | **173** | (25,851) |
| Gain on disposal of subsidiary | 24 | **–** | 40,538 |
| | | **173** | 14,687 |
| **Loss for the year** | | **(35,979)** | (2,727) |
| **Other comprehensive income** | 15 | **11,673** | 18,182 |
| **Total comprehensive (loss)/profit for the year** | | **(24,306)** | 15,455 |
| **Attributable to equity holders of the parent** | | **(24,306)** | 15,455 |
| Basic loss per share – cents | 7 | **(13.98)** | (1.36) |
| Basic loss per share continuing activities – cents | 7 | **(14.05)** | (8.72) |
| Basic earnings/(loss) per share discontinuing activities – cents | 7 | **0.07** | 7.36 |
| Diluted loss per share – cents | 7 | **(13.98)** | (1.36) |
| Diluted loss per share continuing activities – cents | 7 | **(14.05)** | (8.72) |
| Diluted earnings/(loss) per share discontinuing activities – cents | 7 | **0.07** | 7.00 |

# Consolidated statement of financial position

At 31 December 2010

| | Notes | 31 December 2010 $000's | (Restated) 31 December 2009 $000's | (Restated) 1 January 2009 $000's |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Exploration and evaluation Assets | 8 | **198,115** | 89,871 | 77,200 |
| Assets under construction and property, plant and equipment | 9 | **269,133** | 6,485 | 16,266 |
| Available for sale investments | 14 | **76,096** | 42,207 | 8,328 |
| Deposits | 11 | **3,910** | 3,911 | – |
| Deferred tax assets | 12 | **8,232** | – | – |
| **Total non-current assets** | | **555,486** | 142,474 | 101,794 |
| **Current assets** | | | | |
| Cash and cash equivalents | | **372,364** | 76,646 | 24,192 |
| Other receivables | 10 | **422** | 15,252 | 2,101 |
| Inventories | | **1,277** | 1,587 | 1,720 |
| | | **374,063** | 93,485 | 28,013 |
| Assets of disposal group classified as held for sale | 24 | **–** | 7,389 | – |
| **Total current assets** | | **374,063** | 100,874 | 28,013 |
| **Total assets** | | **929,549** | 243,348 | 129,807 |
| **Equity** | | | | |
| Share capital | 15 | **3,176** | 2,136 | 1,875 |
| Share premium account | 15 | **966,931** | 310,002 | 208,169 |
| Equity reserves | 15 | **20,269** | 14,221 | 9,942 |
| Fair value reserve | 15 | **21,392** | 6,960 | (6,812) |
| Accumulated deficit | | **(139,365)** | (103,386) | (100,659) |
| **Attributable to equity holders** | | **872,403** | 229,933 | 112,515 |
| **Total equity** | | **872,403** | 229,933 | 112,515 |
| **Non-current liabilities** | | | | |
| Other non-current liabilities | | **736** | 730 | 1,164 |
| **Total non-current liabilities** | | **736** | 730 | 1,164 |
| **Current liabilities** | | | | |
| Trade and other payables | 17 | **52,331** | 7,116 | 5,404 |
| Fair value of put option | 3 | **–** | – | 6,986 |
| Tax payable | 18 | **4,079** | 5,047 | 3,738 |
| | | **56,410** | 12,163 | 16,128 |
| Liabilities of disposal group classified as held for sale | 24 | **–** | 522 | – |
| **Total current liabilities** | | **56,410** | 12,685 | 16,128 |
| **Total liabilities** | | **57,146** | 13,415 | 17,292 |
| **Total equity and liabilities** | | **929,549** | 243,348 | 129,807 |

The financial statements were approved by the Board and signed on its behalf by:

**Frank Timis**
Executive Chairman

23 June 2011

**Gibril Bangura**
Executive Chairman, AML Sierra Leone

23 June 2011

# Consolidated statement of cash flow

For the year ended 31 December 2010

| | Notes | 2010 $000's | (Restated) 2009 $000's |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Loss before tax from continuing operations** | | **(46,497)** | (17,414) |
| **Loss before tax from discontinued operations** | | **173** | 14,687 |
| | | **(46,324)** | (2,727) |
| **Adjustments to add/(deduct) non-cash items and non-operating items:** | | | |
| Depreciation of property, plant and equipment | 9 | **95** | 100 |
| Impairment of exploration and evaluation assets | 8 | **4,453** | 19,321 |
| Loss on disposal of property, plant and equipment | 4 | **–** | 593 |
| Gain on disposal of subsidiary | 24 | **–** | (40,538) |
| Loss on disposal of available for sale investments | 14 | **2,277** | – |
| Unrealised foreign exchange loss/(gain) | 4 | **11,191** | (2,121) |
| Share-based payments | 16 | **11,309** | 6,353 |
| Dividends received | 14 | **(7,347)** | – |
| Interest received | | **(318)** | (192) |
| | | **(24,664)** | (19,211) |
| **Operating loss before working capital changes** | | | |
| Decrease in inventories | | **310** | 133 |
| Decrease in receivables | 10,11 | **(256)** | 1,986 |
| Increase/(decrease) in provisions | | **6** | (434) |
| Increase in trade and other payables | | **46,210** | (3,443) |
| **Net cash flow from operating activities** | | **21,606** | (20,969) |
| **Cash flows from investing activities** | | | |
| Dividends received | 14 | **7,347** | – |
| Interest received | | **318** | 192 |
| Proceeds of sales of property, plant and equipment | 9 | **62** | 1,125 |
| Payments to purchase property, plant and equipment | 9 | **(264,958)** | (921) |
| Payments to acquire exploration and evaluation assets | 8 | **(110,544)** | (29,114) |
| Proceeds of sales of available for sale investments | 14 | **1,621** | – |
| Payments to acquire available for sale investments | 14 | **(1,252)** | – |
| **Net cash outflow from investing activities** | | **(367,406)** | (28,718) |
| **Cash flows from financing activities** | | | |
| Proceeds of ordinary share issue | | **650,894** | 99,340 |
| Proceeds of exercise of options and warrants | | **1,815** | 680 |
| **Net cash inflow from financing activities** | | **652,709** | 100,020 |
| **Net increase in cash and cash equivalents** | | **306,909** | 50,333 |
| **Net foreign exchange difference** | | **(11,191)** | 2,121 |
| **Cash and cash equivalents at beginning of period** | 13 | **76,646** | 24,192 |
| **Cash and cash equivalents at end of period (restated)** | 13 | **372,364** | 76,646 |

# Consolidated statement of changes in equity

For the year ended 31 December 2010

| | Attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Share capital $000's | Share premium account $000's | Equity reserves $000's | Fair value reserves $000's | Profit and loss account $000's | Total $000's |
| As at 1 January 2009 (restated) | 1,875 | 208,169 | 9,942 | (6,812) | (100,659) | 112,515 |
| Loss for the year | – | – | – | – | (2,727) | (2,727) |
| Fair value movements on available for sale investments (restated) | – | – | – | 18,182 | – | 18,182 |
| Other comprehensive income | – | – | – | 18,182 | (2,727) | 15,455 |
| Recycle of the fair value movement for put liability | – | – | – | (4,410) | – | (4,410) |
| Allotments during the year | 261 | 105,339 | – | – | – | 105,600 |
| Transaction cost – equity issues | – | (5,580) | – | – | – | (5,580) |
| Share-based payments (restated) | – | – | 6,353 | – | – | 6,353 |
| Reserves transfer – options (restated) | – | 582 | (582) | – | – | – |
| Reserves transfer – warrants | – | 1,492 | (1,492) | – | – | – |
| As at 31 December 2009 (restated) | 2,136 | 310,002 | 14,221 | 6,960 | (103,386) | 229,933 |
| **As at 1 January 2010** | **2,136** | **310,002** | **14,221** | **6,960** | **(103,386)** | **229,933** |
| Loss after taxation | – | – | – | – | (35,979) | (35,979) |
| Deferred taxation on available for sale investments | – | – | – | (2,113) | – | (2,113) |
| Fair value movements on available for sale investments | – | – | – | 13,786 | – | 13,786 |
| Other comprehensive income | – | – | – | 11,673 | (35,979) | (24,306) |
| Reserves transfer for available for sale investments | – | – | – | 2,759 | – | 2,759 |
| Allotments during the year | 1,040 | 681,818 | – | – | – | 682,858 |
| Transaction cost – equity issues | – | (30,120) | – | – | – | (30,120) |
| Share-based payments | – | – | 11,309 | – | – | 11,309 |
| Reserves transfer – performance shares | – | 809 | (839) | – | – | (30) |
| Reserves transfer – options | – | 4,368 | (4,368) | – | – | – |
| Reserves transfer – warrants | – | 54 | (54) | – | – | – |
| **As at 31 December 2010** | **3,176** | **966,931** | **20,269** | **21,392** | **(139,365)** | **872,403** |

# Notes to the consolidated financial statements

**1.1 Corporate Information**
The consolidated financial statements of African Minerals Limited for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 23 June 2011.

The registered office of the Group is African Minerals Limited, Victoria Place, 31 Victoria Street Hamilton, HM10, Bermuda.

The principal activities of the Group are the development of iron ore mining and infrastructure assets in Sierra Leone.

**1.2 Basis of preparation**
The consolidated financial statements of African Minerals Limited and all its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and adopted by the European Union ("EU") as they apply to the financial statements of the Group for the year ended 31 December 2010.

The consolidated financial statements have been prepared on a historical cost basis, except for certain available for sale investments that have been measured at fair value. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated.

**1.3 Basis of consolidation**
The consolidated financial statements comprise the financial statements of the Group as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

**1.4 Restatement**
IAS 1 requires an entity to present a statement of financial position at the beginning of the earliest comparative period when it applies an accounting policy retrospectively, reclassifies items in its financial statements, or when it makes a retrospective restatement of items in its financial statements. In these situations, the standard states that an entity must present, as a minimum, three statements of financial position, two of each of the other statements and related notes. The Group moved from recognition of certain derivative assets as fair value through the comprehensive statement of income to fair value through reserves, reclassified short-term deposits to cash and cash equivalents, made retrospective restatements and applied those changes retrospectively in accordance with IAS 8; the Group has also included a statement of financial position as at 1 January 2009. Refer to note 3 for restatement details.

**1.5 Significant accounting judgements, estimates and assumptions**
The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below.

**Going concern**
Management has prepared these financial statements on the assumption that the Group is able to continue as a going concern. Refer to note 2.

**Ore resource estimates**
Ore resource estimates relate to the amount of ore that can be economically and legally extracted from the Group's mining properties.
The Group estimates its ore resource based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgements to interpret the data. The estimation of recoverable resource is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body. Changes in the resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, recognition of deferred tax assets, and depreciation and amortisation charges.

**1.5 Significant accounting judgements, estimates and assumptions** continued

**Exploration and evaluation expenditure**

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a Joint Ore Reserves Committee ("JORC") resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available. Deferred exploration costs are carried at historical cost less any impairment losses recognised.

**1.6 New and amended standards and standards issued but not effective**

The accounting policies adopted are consistent with those of the previous financial year. The following new and amended IFRS and Interpretations effective as of 1 January 2010 did not have a financial impact on the Group:

- IFRS 3 *Business Combinations*
- IFRS 3 *Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements*
- IFRS 8 *Operating Segments*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IAS 7 *Statement of Cash Flows*
- IAS 36 *Impairment of Assets*
- IFRS 2 *Group Cash-settled Share-based Payment Transactions*

**Improvements to IFRSs**

In April 2009, the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for the amendments to each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IAS 7 *Statement of Cash Flows*
- IAS 36 *Impairment of Assets*

**Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective and does not expect the impact of such changes on the financial statements to be material:

- IAS 24 *Related Party Disclosures (Amendment)*
- IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*
- IFRS 9 *Financial Instruments: Classification and Measurement*
- IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
- The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below:
- IFRS 3 *Revised Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 12 *Recovery of Underlying Assets*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

# Notes to the consolidated financial statements
continued

### 1.7 Summary of significant accounting policies

**Exploration and evaluation assets (note 8)**

Exploration costs are capitalised as exploration and evaluation assets until a decision is made to proceed to development. Related costs are then transferred to mining assets. Before reclassification, exploration costs are assessed for impairment and any impairment loss recognised in the statement of comprehensive income. Subsequent development costs are capitalised under mining assets, together with any amounts transferred from exploration and evaluation assets. Mining assets are amortised over the estimated life of the commercial mineral reserves on a unit of production basis.

**Pre-licence costs**

Pre-licence costs are expensed in the period in which they are incurred.

**Property, plant and equipment**

Plant and machinery and fixtures and fittings are shown at cost less accumulated depreciation and impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation together with any incidental cost of purchase. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Assets under construction relate to infrastructure assets and are not depreciated until the construction is completed and the mine is operational. This is signified by the formal commissioning of the mine for production.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the expected useful lives of the assets concerned. The depreciation rates are as follows:

| | % |
|---|---|
| Plant and machinery | 20–30 |
| Fixtures and fittings | 20–30 |
| Land and buildings | 15–20 |

Subsequent expenditure relating to a fixed asset item is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. Repairs and maintenance which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income. Gains/(losses) on the disposal of fixed assets are credited/(charged) to income. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

The asset's residual values, useful lives and methods of depreciation are reviewed at each reporting period, and adjusted prospectively if appropriate.

**Financial instruments:**

a) Financial assets

Investments available for sale

Changes in fair values of investments available for sale are recorded through fair value reserves.

Trade and other receivables

Trade and other receivables are stated at amortised cost less provision for doubtful debts. Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date. Cash and cash equivalents comprise cash, cash at hand and short-term deposit amounts with original maturity of less than three months.

**b) Financial liabilities**

Trade and other payables

Trade and other payables are non-derivative financial liabilities that are not quoted in an active market.

**1.7 Summary of significant accounting policies** continued

### 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. An asset's carrying value is written down to its estimated recoverable amount, being the higher of its fair value less costs to sell and value in use, if that is less than the asset's carrying amount.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, as each project has the potential to be an economically viable cash generating unit. An impairment review is undertaken when indicators of impairment arise but normally when one of the following conditions apply:

- unexpected geological occurrences render a deposit uneconomic;
- title to an asset is compromised;
- variations in commodity prices render the project uneconomic;
- variations in the currency of operation; and
- variations to the fiscal and tax legislation in the country of operation.

### Operating leases

Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

### Finance Income

Interest income is made up of interest received on cash and cash equivalents.

### Deferred taxation

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### Foreign currencies

The consolidated financial statements are presented in US Dollars, which is the Parent Company's functional currency and the Group's presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss or other comprehensive income, should specific criteria be met. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### Inventories

Inventories are valued at the lower of cost and net realisable value. Inventories are made up of fuel and spare parts for maintenance equipment. There is no obsolescence due to the high turnover of inventories.

# Notes to the consolidated financial statements
continued

**1.7 Summary of significant accounting policies** continued

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

### Share-based payments

Options

The Group issues equity-settled share-based payments to certain Directors, officers, employees and suppliers by the issue of new shares or by the use of shares previously acquired. The grant date fair value of the share plans is recognised as an expense over the expected vesting period with a corresponding entry to retained earnings. The estimate of the number of awards likely to vest is reviewed at each statement of financial position date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or not exercised.

Fair value of the options is measured by use of the Black-Scholes pricing model. The estimated life of the instrument used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Performance shares

The Group issues performance shares on the completion of certain conditions being met, eg the award of the mining lease for the Tonkolili iron ore project and the completion of the China Railway Materials Commercial Corporation's ("CRM") equity subscription completed in June 2010.

The Company has also entered into agreements to award senior executives with shares in the Company based on certain performance conditions being met. Conditions include the completion of certain feasibility studies and the achievement of various iron ore production targets. The fair value of performance shares is charged to the statement of comprehensive income over the period between the date of grant and the date the performance conditions are expected to be met.

Warrants

Non-market based vesting conditions are taken into account in estimating the number of awards likely to vest. Fully-paid shares are valued at market value at the date of issue.

The grant date fair value of warrants granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the warrants. The amount recognised as an expense is adjusted to reflect the actual number of warrants for which the related service and non-market vesting conditions are met. To calculate the fair value of the warrants, the Black-Scholes pricing model has been used.

### Segment reporting

The Group is managed as a single entity which is developing the mine and related infrastructure in order to meet commercial production in Q4 2011. In accordance with IFRS 8 Operating Segments, the Group presents its results in a single segment which are disclosed in the statement of comprehensive income for the Group.

The Group does not have any significant non-current assets that are located in the country of domicile of the Group. The vast majority of the non-current assets are located in Sierra Leone.

**2. Going concern**

The Group has prepared detailed cash flow forecasts through to December 2012 that support the conclusion of the Directors that the Group will be able to operate as a going concern with its current resources.

The cash flow forecasts are dependent on completing construction and development of Phase I of the Tonkolili iron ore project, which encompasses the construction/refurbishment of the mine, railway and port facilities to enable the Group to start generating revenue from Q4 2011. In the event the Group is unable to achieve this timetable, or the costs to complete are significantly higher than those forecasted, it may have to seek additional sources of financing. The Group has several options by which this additional financing can be raised. In the event the first shipment of ore is delayed beyond 28 February 2012, the long stop date referred to in the debt facility agreement, the Group would be in default of its debt covenants. In this event, the Group will need to renegotiate the terms of the debt facility or seek alternative financing.

**2. Going concern** continued
The Directors have concluded that the matters discussed above represent material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern. Nevertheless, the Directors after making enquiries and considering these material uncertainties are confident that the Group will continue to have adequate resources to continue in operation for the foreseeable future. For this reason, the financial statements of the Group have been prepared on a going concern basis.

Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group was unable to continue as a going concern.

**3. Change in accounting policy, reclassification and prior period adjustments**
**Statement of comprehensive income**

| | Adjustment | Previously reported 2009 $000's | Adjustment $000's | Restated 2009 $000's |
|---|---|---|---|---|
| Revenue | 13 | 161 | (161) | – |
| Receivables write off | 3 | – | (1,004) | (1,004) |
| Performance shares expense | 9 | – | (971) | (971) |
| Other operating expenses | 5 | (1,812) | (18,182) | (19,994) |
| | 11 | – | (332) | (332) |
| | 12 | – | 4,695 | 4,695 |
| Net operating expenses | | (1,651) | (15,955) | (17,606) |
| Gain on disposal of subsidiary | 14c | 13,595 | (13,595) | – |
| Operating profit/(loss) | | 11,944 | (29,550) | (17,606) |
| Finance income | | 192 | – | 192 |
| **Profit/(loss) before tax** | | 12,136 | (29,550) | (17,414) |
| Tax | | – | – | – |
| **Profit/(loss) for the year from continuing operations** | | 12,136 | (29,550) | (17,414) |
| **Discontinued Operations** | | | | |
| Loss for the year from discontinued operations | | (26,012) | 161 | (25,851) |
| | 4 | – | (1,820) | (1,820) |
| Gain on disposal of subsidiary for discontinued operations | 14c | – | 13,595 | 13,595 |
| Gain on disposal of subsidiary for discontinued operations additions | 14d | – | 28,763 | 28,763 |
| | | (26,012) | 40,699 | 14,687 |
| **Loss for the year** | | (13,876) | 11,149 | (2,727) |
| Other comprehensive income | 5 | – | 18,182 | 18,182 |
| **Total comprehensive loss for the year** | | (13,876) | 29,331 | 15,455 |
| **Attributable to equity holders of the parent** | | (13,876) | 29,331 | 15,455 |
| Basic loss per share – cents | | (6.95) | | (1.36) |
| Basic earnings/(loss) per share continuing activities – cents | | 6.07 | | (8.72) |
| Basic loss per share discontinuing activities – cents | | (13.03) | | 7.36 |
| Diluted loss per share – cents | | (6.95) | | (1.36) |
| Diluted earnings/(loss) per share continuing activities – cents | | 5.78 | | (8.72) |
| Diluted loss per share discontinuing activities – cents | | (13.03) | | 7.00 |

# Notes to the consolidated financial statements
continued

**3. Change in accounting policy, reclassification and prior period adjustments** continued

Adjustments

1. Relates to payroll taxes in Sierra Leone which were not previously accrued or paid to the Sierra Leone tax authorities. As at 31 December 2009 this was $4,671,000, 31 December 2008 $3,442,000 and at 1 January 2008 $2,089,000.
2. Relates to impairment of property, plant and equipment in 2008 for assets not deemed functional of $1,392,000.
3. Relates to the write-off of receivables that are not deemed recoverable. As at 31 December 2009 this was $1,395,000 and as at 31 December 2008, $391,000.
4. Relates to the write-off of a receivable from Marampa Iron Ore Limited which was disposed of in 2009 that is not deemed recoverable as at 31 December 2009 of $1,820,000.
5. Relates to reclassification of investments previously recorded at fair value through profit and loss to available for sale investments. Changes in available for sale investments previously recorded in the consolidated statement of comprehensive income are restated through other comprehensive income in the fair value reserves. As at 31 December 2009 this was a gain of $18,182,000 and 1 January 2009 a loss of $8,463,000. In 2008 $2,759,000 fair value of investments available for sale were recorded through the statement of comprehensive income, these have been corrected as fair value through reserves.
6. Reclassification of short-term investments to cash and cash equivalents as these investments meet the definition of cash equivalents. The cash flow statement has also been restated accordingly. The related amount for 2009 was $71,742,000.
7. Relates to reclassification of exploration and evaluation expenditure to assets under the course of construction as the related assets were still under construction as at the balance sheet date. The related amount for 2009 was $3,002,000.
8. Relates to a correction regarding 2009 exercised share options. Previously exercised options of $582,000 were incorrectly credited to retained earnings, the correcting entry credits the share premium account.
9. Relates to a correction of a charge to the statement of comprehensive income for 2009 performance shares of $971,000 not previously charged. The corresponding entry credits the equity reserves account.
10. Relates to a correction for foreign exchange on a share issue in 2008 which was incorrectly booked at the foreign exchange rate at the date of cash receipt. The correcting entry of $967,000 gain is calculated from the foreign exchange rate at the date the transaction occurred.
11. Relates to a correction for foreign exchange on a share issue in 2009 which was incorrectly booked at the foreign exchange rate at the date of cash receipt. The correcting entry of $332,000 loss is calculated from the foreign exchange rate at the date the transaction occurred.
12. Relates to 2009 capitalisation of depreciation of $4,695,000 Sierra Leone property, plant and equipment, which was not booked in line with the Group's capitalisation policy. Subsequently this has been transferred to exploration and evaluation assets.
13. Reclassification of diamond revenue from continuing operations to discontinued operations.
14. As part of the sale and purchase agreement in 2008, the Company sold 30% of the shares in Marampa to Cape Lambert. Under IAS 27, the Company has restated this transaction and taken into account the potential voting rights. This is due to Cape Lambert's ability to reverse the transaction via their put option. As such, the Company maintained control in 2008 and pushed the full disposal into 2009, when the control of the Company passed to Cape Lambert. The following adjustments were recorded:
   14a. – Removal of gain and minority interest
   14b. – Movement of the fair value of the put liability to other comprehensive income. In 2008 the put liability is credited to fair value reserves and recycled in 2009.
   14c. – 2009 gain on disposal of subsidiary and reclassification to discontinued operations.
   14d. – 2008 gain on disposal pushed into 2009, the corresponding entry is on the accumulated deficit.
   14e. – Deferred funding adjusted for Cash and Cash Equivalents and receivables of $4,667,000 and $20,000,000 respectively.
   During 2009, the disposal of the additional 70% of Marampa was agreed; therefore the additional profit from 2008 has been correctly included in the total gain on disposal.
15. Relates to reclassification of deposits from current deposits to non-current deposits.

**3. Change in accounting policy, reclassification and prior period adjustments** continued

**Consolidated statement of financial position**

| | Adjustment | Previously reported 2009 $000's | Adjustment $000's | (Restated) 2009 $000's | Previously reported 2008 $000's | Adjustment $000's | (Restated) 2008 $000's |
|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | |
| Exploration and evaluation assets | 1 | | 4,671 | | | 3,442 | |
| | 7 | | (3,002) | | | (3,002) | |
| | 12 | | 4,695 | | | | |
| | | 83,507 | 6,364 | 89,871 | 76,760 | 440 | 77,200 |
| Assets under construction and | 2 | | (1,391) | | | (1,391) | |
| property, plant and equipment | 7 | | 3,002 | | | 3,002 | |
| | | 4,874 | 1,611 | 6,485 | 14,655 | 1,611 | 16,266 |
| Available for sale investments | 14b | 42,207 | – | 42,207 | 8,328 | – | 8,328 |
| Deposits | 15 | – | 3,911 | 3,911 | | | |
| **Total non-current assets** | | 130,588 | 11,886 | 142,474 | 99,743 | 2,051 | 101,794 |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | 6 | 4,905 | 71,741 | 76,646 | 28,859 | – | 28,859 |
| | 14e | | | | – | (4,667) | (4,667) |
| | | 4,905 | 71,741 | 76,646 | 28,859 | (4,667) | 24,192 |
| Short-term investments | 6 | 71,742 | (71,742) | – | | | |
| Other receivables | 15 | | (3,911) | | | | |
| | 3 | | (1,395) | | 22,492 | (391) | 22,101 |
| | 14e | | | | | (20,000) | (20,000) |
| | 4 | | (1,820) | | | | |
| | | 22,378 | (7,126) | 15,252 | 22,492 | (20,391) | 2,101 |
| Inventories | | 1,587 | – | 1,587 | 1,720 | – | 1,720 |
| Assets of disposal group classified as held for sale | | 7,389 | – | 7,389 | – | – | – |
| **Total current assets** | | 108,001 | (7,127) | 100,874 | 53,071 | (25,058) | 28,013 |
| **Total assets** | | 238,589 | 4,759 | 243,348 | 152,814 | (23,007) | 129,807 |
| Equity | | | | | | | |
| Share capital | | 2,136 | – | 2,136 | 1,875 | – | 1,875 |
| Share premium account | | 310,055 | (53) | 310,002 | 209,136 | (967) | 208,169 |
| Equity reserves | | 13,251 | 970 | 14,221 | 9,942 | – | 9,942 |
| Fair value reserve | | – | 6,960 | 6,960 | – | (6,812) | (6,812) |
| Accumulated deficit | | (95,597) | (7,789) | (103,386) | (82,303) | (18,356) | (100,659) |
| **Attributable to equity holders** | | 229,845 | 88 | 229,933 | 138,651 | (26,136) | 112,515 |
| Minority interest | 14a | | | | 7,300 | (7,300) | – |
| **Total equity** | | 229,845 | 88 | 229,933 | 145,951 | (33,436) | 112,515 |
| **Non-current liabilities** | | | | | | | |
| Other non-current liabilities | | 730 | – | 730 | 1,164 | – | 1,164 |
| **Total non-current liabilities** | | 730 | – | 730 | 1,164 | – | 1,164 |
| **Current liabilities** | | | | | | | |
| Trade and other payables | 1 | 7,116 | – | 7,116 | 5,404 | – | 5,404 |
| Fair value of put option | 14b | | | | | 6,986 | 6,986 |
| Tax payable | | 376 | 4,671 | 5,047 | 296 | 3,442 | 3,738 |
| | | 7,492 | 4,671 | 12,163 | 5,700 | 10,428 | 16,128 |
| Liabilities of disposal group classified as held for sale | | 522 | – | 522 | – | – | – |
| **Total current liabilities** | | 8,014 | 4,671 | 12,685 | 5,700 | 10,428 | 16,128 |
| **Total liabilities** | | 8,744 | 4,671 | 13,415 | 6,864 | 10,428 | 17,292 |
| **Total equity and liabilities** | | 238,589 | 4,759 | 243,348 | 152,814 | (23,007) | 129,807 |

# Notes to the consolidated financial statements
continued

### 3. Change in accounting policy, reclassification and prior period adjustments continued

**Consolidated statement of changes in equity**

The following illustrates the impact of the restatements on shareholders' equity:

| | Adjustment | Share premium account (Restated) $000's | Equity reserves (Restated) $000's | Fair value reserves $000's | Accumulated deficit (Restated) $000's |
|---|---|---|---|---|---|
| Adjustment for equity 1 January 2009 | | | | | |
| Fair value of investments available for sale | 5 | – | – | (2,759) | 2,759 |
| Movement in the fair value liability for put option | 14b | – | – | 4,410 | – |
| Share issue foreign exchange gain | 10 | (967) | – | – | 967 |
| Assets under construction | 2 | – | – | – | (1,392) |
| Receivables | 3 | – | – | – | (391) |
| Marampa gain | 14d | – | – | – | (28,763) |
| Available for sale investments | 5 | – | – | (8,463) | 8,463 |
| As at 1 January 2009 | | (967) | – | (6,812) | (18,357) |
| Adjustment on movement in equity during 2009 | | | | | |
| Opening Reserves | | (967) | – | (6,812) | (18,357) |
| Share issue foreign exchange loss | 11 | 332 | – | – | – |
| Reserves transfer – options | 8 | 582 | – | – | (582) |
| Share-based payments | 9 | – | 970 | – | – |
| Loss for the year | | – | – | – | 11,149 |
| Recycle of the fair value movement for put liability | 14b | – | – | (4,410) | – |
| Other comprehensive income | 5 | – | – | 18,182 | – |
| As at 31 December 2009 | | (53) | 970 | 6,960 | (7,789) |

### 4. Net operating expenses

| | Notes | 2010 $000's | Restated 2009 $000's |
|---|---|---|---|
| **From continuing operations** | | | |
| Depreciation of property, plant and equipment | 9 | **95** | 100 |
| Depreciation of property, plant and equipment transferred to disposal group | | **–** | (2,917) |
| Loss on disposal of property, plant and equipment | | **–** | 593 |
| Employee costs | 6 | **23,713** | 12,227 |
| Foreign exchange differences | | **11,191** | (2,121) |
| Travel | | **7,973** | 2,682 |
| Advertising and public relations | | **2,092** | 837 |
| Professional services | | **2,161** | 1,901 |
| Other operating charges | | **207** | 3,300 |
| Receivables write off | 3 | **–** | 1,004 |
| | | **47,432** | 17,606 |

**Net operating expenses include:**

| | 2010 $000's | 2009 $000's |
|---|---|---|
| Auditors' remuneration: | | |
| Audit of the financial statements | **200** | 135 |
| Other fees | | |
| – local statutory audits of subsidiaries | **–** | 105 |
| – tax services | **–** | 30 |
| – all other services | **25** | 17 |
| Total other fees | **225** | 287 |

### 5. Directors' emoluments

| | 2010 $000's | 2009 $000's |
|---|---|---|
| Directors' emoluments | **2,996** | 3,449 |
| Amounts receivable under performance share options | **1,566** | 971 |
| Share options | **7,014** | 1,137 |
| | **11,576** | 5,557 |

Detailed disclosures of the Director's remuneration and interests in shares and options over the Company's shares are shown in the report of the Remuneration Committee.

The aggregate gain made by Directors on the exercise of options is $3,781,000 in 2010 (2009: $nil).

No Director has retirement benefits accruing to him as a result of his services to the Group.

There are no post-employment pension and medical benefits or other short-term employee benefits for key management personnel.

### 6. Employee costs (including Directors)

| | Notes | 2010 $000's | Restated 2009 $000's |
|---|---|---|---|
| Wages and salaries | | **25,822** | 8,945 |
| Share-based payments | 16 | **11,309** | 6,353 |
| Social security costs | | **531** | 216 |
| | | **37,662** | 15,514 |
| Less: | | | |
| Capitalised costs | | **(13,949)** | (3,287) |
| Employee costs included within net operating expenses (note 4) | | **23,713** | 12,227 |

The number of employees at the various mining and exploration operations (excluding the Non-Executive Directors of the Group) at the end of the period was 950 (2009: 663)

### 7. Loss per share

| | 2010 $000's | Restated 2009 $000's |
|---|---|---|
| Loss for the year | **(35,979)** | (2,727) |
| Continuing operations | **(36,152)** | (17,414) |
| Discontinued operations | **173** | 14,687 |

Basic earnings/loss per share is calculated by dividing the profit/loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | | |
|---|---|---|
| Basic weighted average number of common shares in issue | 257,185,914 | 199,628,275 |
| Basic loss per share – cents | (13.98) | (1.36) |
| Basic loss per share continuing activities – cents | (14.05) | (8.72) |
| Basic earnings/(loss) per share discontinuing activities – cents | 0.07 | 7.36 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. Where there is a basic loss per share, the dilutive impact is ignored.

| | | |
|---|---|---|
| Basic weighted average number of common shares in issue | 257,185,914 | 199,628,275 |
| Adjustment for share options | 2,626,518 | 10,202,154 |
| | 259,812,432 | 209,830,429 |
| Diluted loss per share – cents | (13.98) | (1.36) |
| Diluted loss per share continuing activities – cents | (14.05) | (8.72) |
| Diluted earnings/(loss) per share discontinuing activities – cents | 0.07 | 7.00 |

# Notes to the consolidated financial statements
continued

### 8. Exploration and evaluation assets

| | Mineral exploration licences $000's | Deferred exploration expenditure $000's | Total $000's |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2009 (restated) | 174 | 111,307 | 111,481 |
| Additions (restated) | 746 | 33,063 | 33,809 |
| Transferred to assets in disposal group held for sale | – | (21,138) | (21,138) |
| As at 31 December 2009 (restated) | 920 | 123,232 | 124,152 |
| At 1 January 2010 | 920 | 123,232 | 124,152 |
| Additions | – | 112,697 | 112,697 |
| **As at 31 December 2010** | **920** | **235,929** | **236,849** |
| **Provision for impairment** | | | |
| At 1 January 2009 | – | 34,281 | 34,281 |
| Impairment charge for the year | – | 19,321 | 19,321 |
| Transferred to assets in disposal group held for sale | – | (19,321) | (19,321) |
| As at 31 December 2009 (restated) | – | 34,281 | 34,281 |
| At 1 January 2010 | – | 34,281 | 34,281 |
| Impairment charge for the year | – | 4,453 | 4,453 |
| **As at 31 December 2010** | **–** | **38,734** | **38,734** |
| **Net book value** | | | |
| At 1 January 2009 (restated) | 174 | 77,026 | 77,200 |
| At 31 December 2009 (restated) | 920 | 88,951 | 89,871 |
| **At 31 December 2010** | **920** | **197,195** | **198,115** |

Exploration and evaluation assets comprise the cost of purchasing mineral exploration licences and certain deferred exploration and evaluation expenditure on the Company's mineral licences. Within additions includes depreciation capitalised of $2,179,000 (2009: $4,695,000), transferred from property, plant and equipment (see note 9).

The Board of Directors regularly assesses the potential of each mineral licence and writes off any deferred exploration expenditure that it believes to be unrecoverable. The Board of Directors undertook an impairment review of the Group's exploration and evaluation assets as at 31 December 2010 and the impairment charge for the current year was $3,858,705 (2009: $19,320,508). In 2010 there was also software impairment of $594,529. This relates to costs capitalised on mineral licences that have been deemed uneconomical.

The impairment charge relates to the write down of our investments in White River Resources, a nickel exploration project in Canada and Pinnacle Coal, a Sierra Leone coal exploration project, neither of which form an ongoing part of the Group's core activities.

In 2009 exploration and evaluation assets of net book value $1,817,312 were transferred to assets in disposal group held for sale. This relates to the disposal of Sierra Leone Hard Rock Limited, refer to note 24.

| Project | Net book value as at 31 December 2010 before impairment charge $000's | Impairment charge $000's | **Net book value as at 31 December 2010 after impairment charge $000's** |
|---|---|---|---|
| Canada – nickel exploration | 2,576 | 2,576 | **–** |
| Sierra Leone – coal exploration | 1,282 | 1,282 | **–** |
| | 3,858 | 3,858 | **–** |
| Software | 595 | 595 | – |
| | 4,453 | 4,453 | – |

### 9. Assets under construction and property, plant and equipment

| | Plant and machinery $000's | Fixtures and fittings $000's | Land and buildings $000's | Assets under construction $000's | Total $000's |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2009 (restated) | 26,279 | 571 | – | 3,002 | 29,852 |
| Additions | 792 | 129 | – | – | 921 |
| Disposals | (6,040) | (9) | – | – | (6,049) |
| Transferred to assets in disposal group held for sale | (15,040) | (131) | – | – | (15,171) |
| As at 31 December 2009 (restated) | 5,991 | 560 | – | 3,002 | 9,553 |
| **At 1 January 2010** | 5,991 | 560 | – | 3,002 | 9,553 |
| Additions | 9,271 | 109 | 4,584 | 250,994 | 264,958 |
| Disposals | – | (62) | – | – | (62) |
| **As at 31 December 2010** | **15,262** | **607** | **4,584** | **253,996** | **274,449** |
| **Depreciation** | | | | | |
| At 1 January 2009 (restated) | 13,075 | 511 | – | – | 13,586 |
| Charge for the year | 4,650 | 145 | – | – | 4,795 |
| Disposals | (4,322) | (9) | – | – | (4,331) |
| Transferred to assets in disposal group held for sale | (10,873) | (109) | – | – | (10,982) |
| As at 31 December 2009 (restated) | 2,530 | 538 | – | – | 3,068 |
| **At 1 January 2010** | 2,530 | 538 | – | – | 3,068 |
| Charge for the year | 1,368 | 90 | 816 | – | 2,274 |
| Disposals | – | (26) | – | – | (26) |
| **As at 31 December 2010** | **3,898** | **602** | **816** | **–** | **5,316** |
| **Net book value** | | | | | |
| At 1 January 2009 (restated) | 13,204 | 60 | – | 3,002 | 16,266 |
| At 31 December 2009 (restated) | 3,461 | 22 | – | 3,002 | 6,485 |
| **At 31 December 2010** | **11,364** | **5** | **3,768** | **253,996** | **269,133** |

In 2009 plant and equipment and fixtures and fittings of net book value $4,189,337 were transferred to assets of disposal group held for sale. This relates to the disposal of Sierra Leone Hard Rock Limited, see note 24.

2009 depreciation charge from assets transferred to disposal group of $2,917,394 is included within the total accumulated depreciation of $10,873,000 transferred.

| | **2010 $000's** | 2009 $000's |
|---|---|---|
| Depreciation | **2,274** | 4,795 |
| Less: | | |
| Capitalised costs – transferred to exploration and evaluation assets | **(2,179)** | (4,695) |
| Depreciation charge | **95** | 100 |

### 10. Other receivables

| | **2010 $000's** | Restated 2009 $000's |
|---|---|---|
| **Current** | | |
| Receivables | **422** | 165 |
| Deferred share consideration | **–** | 15,087 |
| | **422** | 15,252 |

At 31 December 2009, other receivables included $15,086,615 deferred share consideration in respect of the disposal of Marampa Iron Ore Limited. (See note 24.)

# Notes to the consolidated financial statements
continued

## 11. Deposits

| | 2010 $000's | Restated 2009 $000's |
|---|---|---|
| **Non-current** | | |
| Deposits | **3,910** | 3,911 |

$3m in 2009 and 2010 relates to deposits paid to the Government of Sierra Leone in relation to the rail and port licences. These amounts will be recoverable in the future subject to meeting certain performance criteria.

## 12. Taxation

**Analysis of credit for the year:**

| | Notes | 2010 $000's | Restated 2009 $000's |
|---|---|---|---|
| Current tax | | **–** | – |
| Deferred tax | | **10,345** | – |
| **Tax credit for the year** | | **10,345** | – |

The tax for the year is lower than the statutory rate of corporation tax in the UK of 28% (2009: 28%).

The differences are explained below:

| | Notes | 2010 $000's | Restated 2009 $000's |
|---|---|---|---|
| Loss for the year from continuing operations | | **(46,497)** | (17,414) |
| **Discontinued operations** | | | |
| Profit/(loss) for the year | 24 | **173** | (25,851) |
| Gain on disposal of subsidiary | 24 | **–** | 40,538 |
| | | **173** | 14,687 |
| **Loss on ordinary activities before tax** | | **(46,324)** | (2,727) |
| Loss before tax multiplied by the standard UK Corporation tax rate of 28% (2009: 28%) | | **12,971** | 764 |
| Effects of: | | | |
| Expenses not deductible for tax purposes | | **(4,705)** | – |
| Utilisation of previously unrecognised deferred tax assets | | **3,708** | – |
| Deferred tax assets not recognised | | **–** | (764) |
| Effect of overseas tax rates | | **(1,629)** | – |
| **Total taxation credit** | | **10,345** | – |

**Deferred income tax asset**

With the Tonkolili mine moving into a development phase and with production expected to start in 2011, the Group is now expecting to generate profits to utilise the tax losses. This has resulted in the recognition of the deferred tax asset in the year.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | Tax losses $000's | Other temporary differences $000's | Total $000's |
|---|---|---|---|
| Deferred income tax assets | | | |
| Credit to the income statement | 63,283 | 817 | 64,100 |
| Amounts previously unrecognised | 18,038 | (604) | 17,434 |
| Effects of changes in tax rates | (75) | – | (75) |
| **As at 31 December 2010** | **81,246** | **213** | **81,459** |

### 12. Taxation continued

| | Property, plant and equipment $000's | Investment $000's | Other $000's | Total $000's |
|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | |
| Charged (credited) to the income statement | 56,117 | – | 2,622 | 58,739 |
| Charged (credited) to other comprehensive income | – | 2,113 | – | 2,113 |
| Amounts previously unrecognised | 11,389 | (6) | 1,067 | 12,450 |
| Effects of change in tax rates | – | (75) | – | (75) |
| **As at 31 December 2010** | **67,506** | **2,032** | **3,689** | **73,227** |

| | |
|---|---|
| **Net deferred tax asset** | 8,232 |
| Recognised in other comprehensive income | 2,113 |
| **Total taxation credit** | **10,345** |

No deferred tax asset was recognised in the prior year as the Tonkolili project was at a development stage and a deferred tax liability, to the extent that it arose, was not material and was offset by the brought forward losses.

#### Unrecognised tax losses

Where the realisation of deferred tax assets is dependent on future profits, losses carried forward are recognised only to the extent that business forecasts predict that such profits will be available. The Group has an unrecognised deferred tax asset of approximately $2,120,000 (2009: $3,708,000) in respect of tax losses that are available indefinitely for offset against future taxable profits.

#### Change in UK corporation tax rate

A number of changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. The Corporation tax rate was reduced by an additional 1% to bring the rate to 26%. Legislation to reduce the new main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements.

### 13. Financial instruments

Set out below is a comparison by class of the fair value of the Group's financial instruments that are carried in the financial statements.

| | **2010 $000's** | 2009 $000's | Restated as at 1 January 2009 $000's |
|---|---|---|---|
| **Financial assets** | | | |
| Other receivables | **422** | 15,252 | 2,101 |
| Available for sale investments | **76,096** | 42,207 | 8,328 |
| Cash and cash equivalents | **372,364** | 76,646 | 24,192 |
| **Total** | **448,882** | 134,105 | 34,621 |
| **Financial liabilities** | | | |
| Fair value of put option | **–** | – | 6,986 |
| Trade and other payables | **52,331** | 7,116 | 8,846 |
| **Total** | **52,331** | 7,116 | 15,832 |

The Group's principal financial liabilities comprise trade and other payables. The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the Group's capital expenditure programme. The Group has various financial assets such as available for sale investments, other receivables and cash and cash equivalents, which arise directly from its operations.

In respect of monetary assets and liabilities held in currencies other than US Dollars, the Group ensures that net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Foreign exchange differences on retranslation of such assets and liabilities are taken to the statement of comprehensive income.

Cash and cash equivalents consist of short-term deposits in US Dollars and Sterling which earn market interest rates.

# Notes to the consolidated financial statements
continued

**13. Financial instruments** continued
The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of available-for-sale investments is derived from quoted market prices in active markets.

**14. Available for sale investments**

| Equity securities $000's | **31 December 2010** | Fair value movement | Share price movement | Exchange movement | Share disposals | Share acquisitions | 1 January 2010 |
|---|---|---|---|---|---|---|---|
| UK | **13,428** | 7,960 | 504 | 7,456 | (3,100) | 6,865 | 1,703 |
| Australia | **62,668** | 5,826 | 6,486 | (660) | – | 16,338 | 40,504 |
| Total | **76,096** | 13,786 | 6,990 | 6,796 | (3,100) | 23,203 | 42,207 |
| | 31 December 2009 | | | | | | 1 January 2009 |
| UK | 1,703 | 701 | 546 | 155 | – | – | 1,002 |
| Australia | 40,504 | 17,481 | 11,125 | 6,356 | – | 15,697 | 7,326 |
| Total | 42,207 | 18,182 | 11,671 | 6,511 | – | 15,697 | 8,328 |
| | 31 December 2008 | | | | | | 1 January 2008 |
| UK | 1,002 | (4,393) | (4,146) | (247) | – | 5,395 | – |
| Australia | 7,326 | (4,070) | (2,962) | (1,108) | – | 11,396 | – |
| Total | 8,328 | (8,463) | (7,108) | (1,355) | – | 16,791 | – |

**United Kingdom**
As at 31 December 2010 the percentage holding of Stellar Diamonds plc (formerly West African Diamonds plc) was 1.25% (2009: 9.67%) and the percentage holding of Obtala Resources plc was 9.45% (2009: nil).

21,170,422 ordinary shares in Obtala Resources were received during the year in respect of the disposal of Sierra Leone Hard Rock (SL) Limited. (Refer to note 24.)

11,425,000 ordinary shares in Baobab Resources plc with cost of $3,898,781 were disposed of in the year for proceeds of $1,621,371 and a loss on disposal of $2,277,410.

**Australia**
Australian equity securities included Cape Lambert Resources. As at 31 December 2010 the percentage holding of Cape Lambert Resources was 19.64% (2009: 15.14%)

15,086,615 Cape Lambert Resources ordinary shares at consideration of $1 per share were acquired during the year in respect of the disposal of Marampa Iron Ore Limited.

3,860,277 additional Cape Lambert Resources ordinary shares were purchased in the year for $1,252,385.

Dividends of $7,347,134 were received in the year from Cape Lambert Resources.

### 15. Share capital, share premium and other reserves

| | 2010 Number of shares | 2010 $000's | 2009 Number of shares | 2009 $000's |
|---|---|---|---|---|
| **Authorised** | | | | |
| Common shares of $0.01 each | **350,000,000** | **3,500** | 350,000,000 | 3,500 |
| Preference shares of $0.001 each | **100,000,000** | **100** | 100,000,000 | 100 |
| **Issued and fully paid – common shares of $0.01 each** | | | | |
| At 1 January | **213,639,654** | **2,136** | 187,517,441 | 1,875 |
| Allotments during the period | **103,936,289** | **1,040** | 26,122,213 | 261 |
| **At 31 December** | **317,575,943** | **3,176** | 213,639,654 | 2,136 |

Preference shares are authorised but not issued. Refer to subsequent events note 21 for details of significant share issue in 2011.

**Share premium**

| | Notes | $000's |
|---|---|---|
| At 1 January 2009 (restated) | | 208,169 |
| Share allotments during the year | | 105,339 |
| Transaction cost – equity issues | | (5,580) |
| Reserves transfer – options | 3, 16 | 582 |
| Reserves transfer – warrants | 16 | 1,492 |
| At 31 December 2009 (restarted) | | 310,002 |
| Share allotments during the year | | 681,818 |
| Transaction cost – equity issues | | (30,120) |
| Reserves transfer – performance shares | | 809 |
| Reserves transfer – options | 16 | 4,368 |
| Reserves transfer – warrants | 16 | 54 |
| **At 31 December 2010** | | **966,931** |

Allotments during the period were as follows:

**New Shares**
98,579,474 (2009: 25,538,880) new common shares were issued for consideration of $677,948,832 (2009: $104,575,329) before expenses of $30,120,465 (2009: $5,579,922).

**Share options**
2,223,482 (2009: 583,333) new common shares were issued for consideration of $1,679,050 (2009: $692,770) on the exercise of share options.

**Warrants**
133,333 (2009: nil) new common shares were issued for consideration of $53,880 on the exercise of share warrants.

**Share scheme**
3,000,000 (2009: nil) new common shares with a value at grant date of $839,973 were issued on the achievement of corporate objectives under the Employee Share Scheme.

# Notes to the consolidated financial statements
continued

### 15. Share capital, share premium and other reserves continued

**Fair value reserves**

Balances held in fair value reserves relate to fair value movements in the year on available for sale investments.

| | Notes | $000's |
|---|---|---|
| As at 1 January 2009 (restated) | | (6,812) |
| Recycle of the fair value movement for put liability | | (4,410) |
| Fair value movement on available for sale investments | 14 | 18,182 |
| As at 31 December 2009 (restated) | | 6,960 |
| Reserves transfer for available for sale investments | | 2,759 |
| Fair value movement on available for sale investments | 14 | 13,786 |
| Deferred taxation on available for sale investments | | (2,113) |
| 2010 fair value movement as reported in the statement of comprehensive income | | 11,673 |
| **As at 31 December 2010** | | **21,392** |

**Equity reserves**

The balance held in equity reserves relates to share-based payments, options and warrants.

| | Notes | $000's |
|---|---|---|
| As at 1 January 2009 | | 9,942 |
| Share-based payments | 16 | 6,353 |
| Reserves transfer – options | 3, 16 | (582) |
| Reserves transfer – warrants | 16 | (1,492) |
| As at 31 December 2009 (restated) | | 14,221 |
| Share-based payments | | 11,309 |
| Reserves transfer – performance shares | | (839) |
| Reserves transfer – options | 16 | (4,368) |
| Reserves transfer – warrants | 16 | (54) |
| **As at 31 December 2010** | | **20,269** |

### 16. Share-based payments

**Equity-settled transactions**

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense (see note 6).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 7).

### 16. Share-based payments continued

#### a) Options

The Group has issued equity settled share options under a share option scheme adopted by the Group on 5 November 2004. Movements in share options over $0.01 common shares in the Company were as follows:

| Number of Options | 2010 | Weighted average price | 2009 | Weighted average price |
|---|---|---|---|---|
| **As at 1 January** | **16,648,455** | **99.5p** | 9,921,154 | 126.1p |
| Options granted in the year | **6,550,000** | **410.3p** | 15,048,455 | 105.0p |
| Options exercised in the year | **(2,223,482)** | **136.4p** | (583,333) | 72.6p |
| Options lapsed in the year | **(50,000)** | **16.8p** | (516,667) | 84.8p |
| Options cancelled in the year | **(650,000)** | **458.5p** | (7,221,154) | 150.1p |
| **As at 31 December** | **20,274,973** | **206.4p** | 16,648,455 | 99.5p |

7,294,795 (2009: 3,400,000) options were exercisable at year end.

Volatility was determined using the historic fluctuations in the Company's share price.

The fair value of options granted during the year was estimated using the Black-Scholes pricing model with the following significant assumptions:

| | |
|---|---|
| Expected life (years) | 5 |
| Risk-free interest rate | 1.8–3.0% |
| Volatility | 77–91% |

Key statistics regarding the options for the year were as follows:

| | |
|---|---|
| Weighted average fair value per option | $4.10 |
| Weighted average exercise price | $1.23 |
| Weighted average share price at exercise date | $5.73 |
| Weighted average remaining life | 1,240 days |
| Range of exercise price | $0.80–$7.62 |

The stock-based compensation recognised as an expense in the year to 31 December 2010 was $11,308,561 (2009: $6,353,564). A transfer of $4,368,338 (2009: $582,513) was made from the equity reserve to the share premium account during the year.

Subject to the rules of the Share Option Plan and the requirements noted below, each of the outstanding options is exercisable as follows:

- one-third of the shares under option following the first anniversary of the date of grant;
- a further one-third of the shares under option following the second anniversary of the date of grant;
- the final one-third of the shares under option following the third anniversary of the date of grant;

provided that the option holder remains a Director or employee of the Group, or if the option holder's employment is terminated, within 90 days of the termination.

Subject to the rules of the Share Option Plan each of the outstanding options is exercisable when the Company's share price has traded at or above the Exercise Price for 14 consecutive trading days.

#### b) Warrants

Movements in equity settled warrants over $0.01 common shares in the Company in the year were as follows:

| Number of warrants | 2010 | 2009 |
|---|---|---|
| **As at 1 January** | **266,667** | 1,341,667 |
| Warrants granted in the year | **–** | – |
| Warrants lapsed in the year | **–** | (1,075,000) |
| Warrants exercised in the year | **(133,333)** | – |
| **As at 31 December** | **133,334** | 266,667 |

All warrants outstanding at year end are exercisable. No stock-based compensation in relation to warrants was recognised as an expense in the year to 31 December 2010 (2009: nil).

# Notes to the consolidated financial statements continued

**16. Share-based payments** continued
Key statistics regarding the warrants for the year were as follows:

| | |
|---|---|
| Weighted average exercise price | $1.20 |
| Weighted average share price at exercise date | $6.31 |
| Weighted average remaining life | 110 days |
| Range of exercise price | $1.20 |

Warrants are valued using the Black-Scholes pricing model. The value is then expensed as a share-based payment in the profit and loss account over the life of the warrant.

During the year, a transfer of $53,880 (2009: $nil) was made from the equity reserve to the share premium account representing exercise of warrants in 2010.

During the year there were no lapses of warrants (2009: $1,491,885) and therefore no transfer out of equity reserves for warrants.

These warrants have been issued as part of the consideration paid to advisors who have acted for the Company in the raising of equity through private placements.

**c) Performance shares**
Movements in performance equity settled shares in the Company in the year were as follows:

| Number of performance shares | **2010** | 2009 |
|---|---|---|
| **As at 1 January** | **4,500,000** | 2,500,000 |
| Shares granted in the year | **1,750,000** | 2,000,000 |
| Shares issued in the year | **(3,000,000)** | – |
| **As at 31 December** | **3,250,000** | 4,500,000 |

For the shares issued, the following performance conditions were met:
- the award of the mining lease for the Tonkolili iron ore project; and
- the completion of the China Railway Materials Commercial Corporation's ("CRM") equity subscription completed in June 2010.

The Company has also entered into agreements to award senior executives with shares in the Company based on certain performance conditions being met. These conditions include the following:
- the completion of certain feasibility studies; and
- the achievement of various iron ore production targets.

**17. Trade and other payables**

| | **2010 $000's** | Restated 2009 $000's |
|---|---|---|
| Trade payables | **41,229** | 6,282 |
| Accruals | **11,102** | 834 |
| | **52,331** | 7,116 |

Trade payables are non-interest bearing. Trade payables and accruals increased due to an increase in capital spend in 2010.

**18. Tax payable**

| | **2010 $000's** | Restated 2009 $000's |
|---|---|---|
| Other taxes and social security | **4,079** | 5,047 |

Other taxes include employee tax and withholding tax payable.

**19. Capital commitments**
At 31 December 2010, the Group had commitments of $329.3m (2009: $nil).

## 20. Operating lease
The Group has entered into two mining licences with the Sierra Leone Government and a lease for the port and rail operations.

The lives of the mining licences are 25 years and the port and rail licence is 99 years. There are no restrictions placed upon the Group by entering into these leases.

Future minimum payments under the non-cancellable mining licence as at 31 December are as follows:

| | 2010 $000's | 2009 $000's |
|---|---|---|
| Within one year | **1,250** | 250 |
| After one year but not more than five years | **5,000** | 1,000 |
| More than five years | **43,250** | 23,500 |
| | **49,500** | 24,750 |

## 21. Subsequent events
1. The Company closed a secured non-revolving credit facility (the "Agreement") on 14 February 2011 for an amount of $417.7m. The principal terms of the agreement are as follows:
- Two year term (capital repayments commencing from 30 April 2012).
- An interest rate of 11.5% per annum, and a commitment fee.
- Repayment by the Company at any time (repayments and penalties 6% in year one). If the facility remains outstanding on the first anniversary of drawing, the Company shall pay a bonus equal to 3% of the outstanding balance of the facility either in cash or common shares at the Company's election.
- Secured over the principal assets of the Group.

Under the agreement, commitment fees due to lenders are payable in new common shares in the Company and warrants convertible into new common shares in the Company at 425 pence per share.

A total of 2,348,399 new common shares and 10,442,500 warrants were issued on 16 February 2011 pursuant to the Agreement.

2. Under the terms of the China Railway Materials Commercial Corporation's ("CRM") equity subscription completed in June 2010, in which CRM acquired 12.5% of the issued share capital of the Company, CRM was granted certain pre-emption rights. These rights entitle CRM to maintain its existing percentage shareholding in the Company in respect of new equity issues by the Company on the same terms as those new equity issues (including as to price).

CRM exercised this option in respect of the equity issue of 45m common shares at 425 pence per share issued in November 2010, and accordingly 6,991,450 new common shares in the Company at a placing price of 425 pence for a total consideration of £29,713,662 (approx. $46m) were issued on 20 January 2011.

## 22. Related party transactions

| $000's | | Purchases | Payables | Receivables |
|---|---|---|---|---|
| Eastern Petroleum Corporation Limited | **2010** | **–** | **–** | **–** |
| | 2009 | 404 | 61 | 47 |
| Clyde & Co LLP | **2010** | **397** | **50** | **–** |
| | 2009 | 360 | 123 | – |
| China Railway Materials Commercial Corporation | **2010** | **17,428** | **13,341** | **–** |
| | 2009 | – | – | – |
| Dundee Resources Limited | **2010** | **–** | **1** | **–** |
| | 2009 | – | – | – |

Eastern Petroleum Corporation Limited is a company of which Frank Timis is a director and has an ownership interest. Transactions relate to rent and administration services. Frank Timis is the Executive Chairman of African Minerals Limited.

Clyde & Co LLP is a firm of which Christopher Duffy is a partner. Transactions relate to legal fees. Christopher Duffy was a Director of African Minerals Limited in the year.

China Railway Materials Commercial Corporation is a Group shareholder. Transactions relate to materials purchased for infrastructure and rail construction.

# Notes to the consolidated financial statements
continued

**22. Related party transactions** continued
Dundee Resources Limited is a firm of which Murray John is a director. Transactions relate to fees incurred under the secured non-revolving credit facility (see note 21). Murray John is a Director of African Minerals Limited.

All the above transactions have been approved by the Board and have been carried out on an arm's length basis.

**23. Reporting jurisdictions**
The Company is a reporting issuer in certain Canadian jurisdictions. However, the Company is a "designated foreign issuer" as defined in Canadian National Instrument 71–102 and is subject to foreign regulatory requirements, including those of the AIM market of the London Stock Exchange. As such, the Company is exempt from certain requirements otherwise imposed on reporting issuers in Canada. In particular, financial statements of the Company may be prepared under International Financial Reporting Standards or accounting principles that meet the non-Canadian disclosure requirements to which the Company is subject.

**24. Assets of disposal group classified as held for sale and discontinued operations**
Analysis of the result of discontinued operations, and the result recognised on the remeasurement of assets of disposal group, is as follows:

| | **2010 $000's** | Restated 2009 $000's |
|---|---|---|
| Revenue | **626** | 398 |
| Expenses | **(453)** | (6,928) |
| Profit/(loss) before tax of discontinued operations | **173** | (6,530) |
| Tax | **–** | – |
| Profit/(loss) after tax of discontinued operations | **173** | (6,530) |
| Pre-tax loss recognised on the remeasurement of assets of disposal group | | (19,321) |
| Tax | **–** | – |
| After tax loss recognised on the remeasurement of assets of disposal group | **–** | (19,321) |
| Profit/(loss) for the year from discontinued operations | **173** | (25,851) |
| Gain on disposal of subsidiary for discontinued operations (note 3) | | (1,820) |
| Gain on disposal of subsidiary for discontinued operations (note 3) | | 13,595 |
| Gain on disposal of subsidiary for discontinued operations additions (note 3) | | 28,763 |
| | | 40,538 |
| Gain on discontinued operations | **173** | 14,687 |

Revenue of discontinued operations comprises gold and diamond sales. In 2009, $161,000 has been restated from the statement of consolidated income to discontinued operations in consideration of Marampa, see note 3.

(a) Assets of disposal group classified as held for sale

| | 2009 $ |
|---|---|
| Property, plant and equipment | 4,189 |
| Exploration and evaluation assets | 1,817 |
| Inventory | 1,382 |
| Other current assets | 1 |
| | 7,389 |

(b) Liabilities of disposal group classified as held for sale

| | 2009 $ |
|---|---|
| Trade and other payables | 30 |
| Provisions | 492 |
| | 522 |

**24. Assets of disposal group classified as held for sale and discontinued operations** continued

Cash flows of discontinued operations:

| | Sierra Leone Hard Rock 2009 $000's | Marampa 2009 $000's |
|---|---|---|
| Net cash generated from operating activites | (8,990) | (27) |
| Cash flows from investing activities | (36,065) | (811) |
| Cash flows from financing activities | 45,037 | 945 |
| Net increase/(decrease) in cash and cash equivalents | (18) | 107 |
| Cash and cash equivalents at 1 January | 18 | (48) |
| Cash and cash equivalents at 31 December | – | 59 |

In 2009, the assets and liabilities related to Sierra Leone Hard Rock Limited and its subsidiary company Sierra Leone Hard Rock (SL) Limited were presented as held for sale. The Group's management decided in late 2009 to divest the Group of its diamond operations so as to concentrate fully on its iron ore development at Tonkolili. On 13 January 2010 it was announced that on 12 January 2010 the Group had completed the sale of Sierra Leone Hard Rock Limited and its subsidiary company to Obtala Resources plc in a share transaction valued at $6,866,724.

**Gain on disposal of subsidiary**

| | Notes | **2010 $000's** | Restated 2009 $000's |
|---|---|---|---|
| Proceeds | | | |
| Shares in Cape Lambert Resources received during the year | | **–** | 27,235 |
| Shares in Cape Lambert Resources deferred | 10 | **–** | 15,087 |
| Shares in Obtala Resources received during the year | | **6,867** | – |
| Total proceeds | | **6,867** | 42,322 |
| Net assets disposed | | **6,867** | 1,784 |
| Gain on disposal of subsidiary | | **–** | 40,538 |

**2010**

On 12 January 2010 the Group disposed of its diamond operation, which comprised of Sierra Leone Hard Rock Limited and its subsidiary Sierra Leone Hard Rock (SL) Limited. The assets and liabilities were transferred to Obtala Resources plc in a share transaction valued at $6,866,724 and amounted to nil profit on disposal.

**2009**

Relates to the disposal of Marampa Iron Ore Limited to Cape Lambert Resources Limited in return for shares in Cape Lambert. As at 31 December 2008 the Company had sold 30% of the shares in Marampa to Cape Lambert however Cape Lambert had a put option to sell the shares back. See note 3 for further explanation.

**25. Financial risk management and policies**

The Group's activities expose it to a variety of financial risks. The Group's Board provides certain specific guidance in managing such risks, particularly as relates to credit and liquidity risk. Any form of borrowings requires approval from the Board and the Group does not currently use any derivative financial instruments to manage its financial risks. The key financial risks and the Group's major exposures are as follows:

**Credit risk**

The maximum exposure to credit risk is represented by the carrying amount of the financial assets. In relation to cash and cash equivalents, the Group limits its credit risk with regards to bank deposits by only dealing with reputable banks.

**Foreign currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the currencies to which the Group had significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar, with all other variables held constant on the consolidated statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities).
A positive amount in the table reflects a potential net increase in the consolidated statement of comprehensive income.

# Notes to the consolidated financial statements
continued

**25. Financial risk management and policies** continued

### Non-trading cash and cash equivalents:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **$000's** | **Change in currency rate in %** | **Effect on equity** | $000's | Change in currency rate in % | Effect on equity |
| British Pounds | **22,888** | **±10** | **2,288** | 59,932 | ±10 | 5,993 |
| Canadian Dollars | **390** | **±10** | **39** | 367 | ±10 | 37 |
| Chinese Yen | **48** | **±10** | **5** | – | ±10 | – |
| Euros | **0** | **±10** | **0** | – | ±10 | – |
| South African Rand | **0** | **±10** | **0** | – | ±10 | – |
| Sierra Leone Leones | **(104)** | **±10** | **(10)** | – | ±10 | – |
| | **23,222** | | **2,322** | 60,299 | | 6,030 |

### Available for sale investments:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **$000's** | **Change in currency rate in %** | **Equity movement** | $000's | Change in currency rate in % | Equity movement |
| Listed securities: | | | | | | |
| Equity securities – UK | **14,090** | **10** | **1,409** | 1,703 | 10 | 170 |
| Equity securities – Australia | **62,006** | **10** | **6,201** | 40,504 | 10 | 4,050 |

### Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. Management of the Group monitors equity securities in its investment portfolio based on market indices.

The effect on equity (as a result of a change in the fair value of quoted equity shares held at 31 December 2010) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Change in equity price %** | **Effect on equity $000's** | Change in equity price % | Effect on equity $000's |
| Quoted investments | **±10%** | **7,610** | ±10% | 4,221 |

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Numbers in the table below represent the gross, contractual, undiscounted amount payable in relation to the financial liabilities. The Group has cash and cash equivalents in excess of financial obligations. See going concern note 2.

### As at 31 December 2010:

| | On demand $000's | Less than three months $000's | Total months $000's |
|---|---|---|---|
| Accruals | 1,813 | 9,289 | 11,102 |
| Trade payables | 24,876 | 16,353 | 41,229 |
| Trade payables and accruals | 26,689 | 25,642 | 52,331 |

In 2009, accruals and trade payables of $7,116,000 were repayable on demand.

**25. Financial risk management and policies** continued

**Capital Management**

Capital includes equity attributable to the equity holders of the parent. Refer to the statement of changes in equity for quantitative information regarding equity.

The Group's primary objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders.

Capital managed by the Group as at 31 December 2010 consisted of:

| | 2010 $000's | 2009 $000's |
|---|---|---|
| Cash and cash equivalents | **372,364** | 76,646 |
| Equity attributable to equity holders of the parent | **872,403** | 229,933 |

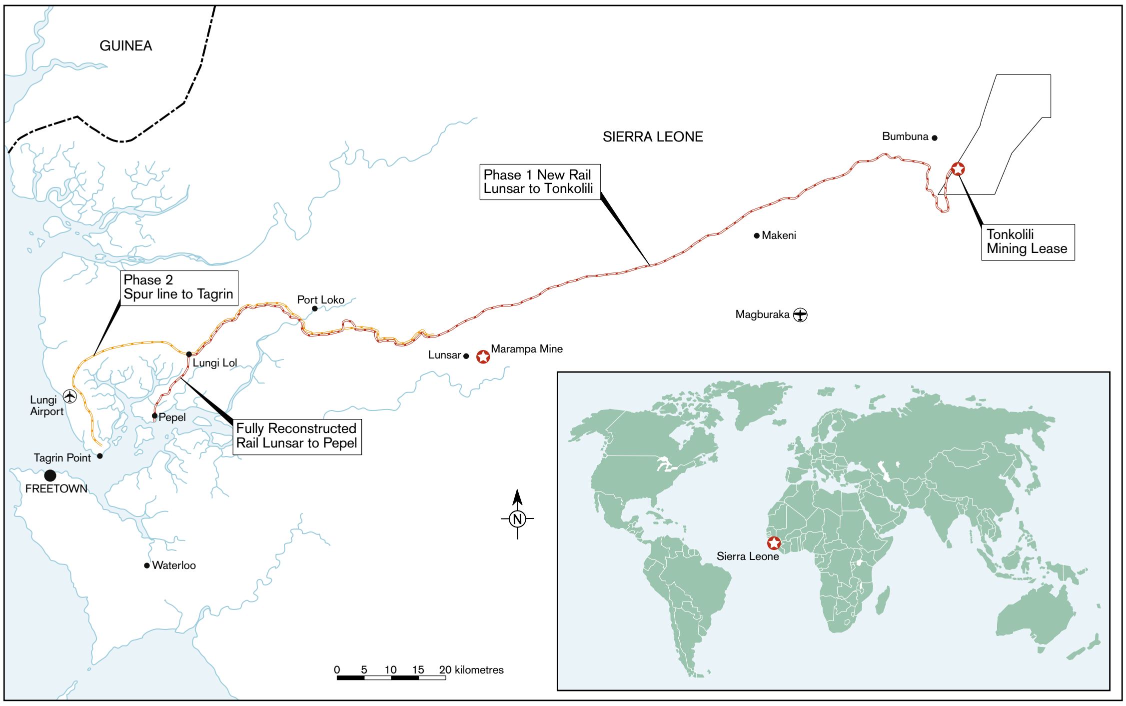
The capital structure is reviewed by management through regular forecasting and monthly reporting.

The Group is not subject to any externally imposed capital requirements.

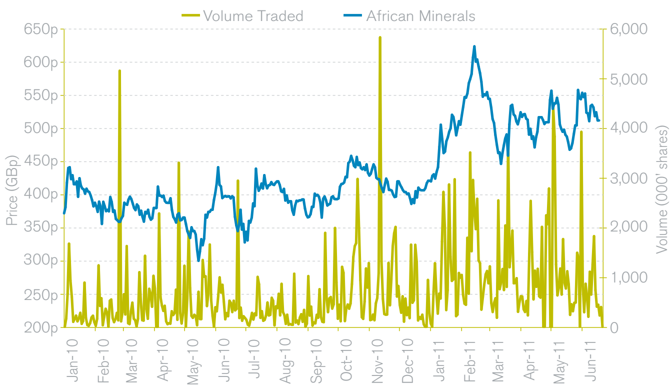
# Notes

# Company overview

African Minerals is developing the wholly owned Tonkolili iron ore project in Sierra Leone, with a JORC compliant resource of 12.8Bnt. The project, which currently has a mine-life in excess of 60 years, is being developed in three phases. The more than $1bn development of Phase I is fully funded and is expected to produce 12 million tonnes of iron ore per annum once it enters production in late 2011. Phase II is expected to boost production by 23Mtpa, and Phase III by an additional 45Mtpa.




## AMI Share Price Performance from 1 January 2010




## Key Shareholders (end of April 2011)

| | Number of shares (m) | % Holding |
|---|---|---|
| Frank Timis | 40.81 | 12.44% |
| China Railways Materials Commercial Corporation | 40.57 | 12.37% |
| BlackRock Investment Management | 38.52 | 11.74% |
| M&G Investment Management | 32.75 | 9.99% |
| Capital Group Co's Inc | 25.82 | 7.87% |
| Goodman & Co Investment Counsel | 17.63 | 5.37% |
| Gibril Bangura | 7.79 | 2.38% |

## As at end of April 2011 (shares in millions)

Issued shares
> 328.0

Warrants
> 10.6

Options & grants
> 24.1

Free float
> 61.0%
excluding BlackRock

african-minerals.com

## Tonkolili JORC resource

| Material | Category | Tonnes (million) | Fe Total % | $SiO_2$ % | $Al_2O_3$ % | P % |
|---|---|---|---|---|---|---|
| DSO | Measured | 25.5 | 59.1 | 2.0 | 5.5 | 0.12 |
| | Indicated | 57.4 | 58.1 | 2.4 | 6.0 | 0.09 |
| | M and I | 82.9 | 58.4 | 2.3 | 5.8 | 0.10 |
| | Inferred | 43.6 | 57.6 | 2.8 | 6.2 | 0.08 |
| | M and I and I | 126.5 | 58.1 | 2.5 | 6.0 | 0.09 |
| Saprolite | Measured | 6.1 | 52.2 | 6.8 | 8.4 | 0.17 |
| | Indicated | 101.3 | 46.6 | 17.0 | 7.1 | 0.12 |
| | M and I | 107.4 | 46.9 | 16.5 | 7.2 | 0.12 |
| | Inferred | 1,017.1 | 39.3 | 21.9 | 11.6 | 0.08 |
| | M and I and I | 1,124.5 | 40.0 | 21.4 | 11.2 | 0.08 |
| Magnetite | Measured | 2,500 | 30.2 | 44.9 | 4.8 | 0.07 |
| | Indicated | 3,700 | 30.4 | 44.8 | 5.0 | 0.06 |
| | M and I | 6,200 | 30.3 | 44.8 | 4.9 | 0.06 |
| | Inferred | 5,300 | 29.8 | 44.6 | 5.3 | 0.06 |
| | M and I and I | 11,500 | 29.8 | 44.6 | 5.1 | 0.06 |

## Contact

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## Tonkolili iron ore project at a glance

**One of the largest reported JORC compliant magnetite iron ore deposit worldwide**

- 12.8Bnt JORC Compliant ore resource
- 3 Phase development approach for rapid access to cash flow
- Fully funded into $1.2bn Phase I production at 12Mtpa Direct Shipping Ore from Q4 2011
- Head start with infrastructure – existing port provides easy access to major, deepwater harbour
- Low cost of transport and infrastructure, low stripping ratio, and low processing requirement drive low cash costs
- Significant impact on GDP makes GoSL/AML a synergistic relationship
- Strategically located for European and Asian markets
- Uniquely experienced management team

## Summary of Three Phase development

| Production | Incremental capacity | Max production | Metallurgy | Commence | Infrastructure | Capex $bn | Phase Opex $/t | Life |
|---|---|---|---|---|---|---|---|---|
| Phase I (DSO) | 12Mtpa of Direct Shipping Ore | 12Mtpa | Mass Yield: 85% DSO c.59% | Q4 2011 | Pepel Port + Transhipment Narrow Gauge Rail | 1.2 | $27.50 | 9 years |
| Phase II (Saprolite) | +23Mtpa of hematite conc. | 35Mtpa | Mass Yield: 30–40% Hem Conc 64% | 30 months from funding | Tagrin Port Narrow Gauge Rail | c.2 | c.$21 | 18 years |
| Phase III (Magnetite) | +45Mtpa of magnetite conc. | To be determined | Mass Yield: 26% Mag Conc 70%+ | 2017 (subject to funding) | Tagrin Port Standard Gauge Rail | c.6 | c.$23 | 60+ years |

## Board of Directors

**Vasile (Frank) Timis**
Executive Chairman

**Alan Watling**
Chief Executive Officer

**Miguel Perry**
Chief Financial Officer

**Gibril Bangura**
Executive Director – Sierra Leone

**William Murray John**
Non-Executive Director

**Roger Liddell**
Non-Executive Director

**Dermot Coughlan**
Non-Executive Director

**Mark Ashurst**
Non-Executive Director

**Nina Shapiro**
Non-Executive Director

**Liu Guoping**
Non-Executive Director

**Bernard Pryor**
Non-Executive Director (from July 2011)

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