

# KEFI Minerals Plc Annual Report 2011

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*Exploring for gold and copper in Saudi Arabia*



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### **Competent Person Statement**

*References in this report to exploration results and potential have been approved for release by Mr Jeffrey Rayner (BSc Hons) Mr Rayner is a geologist and has more than 25 years' relevant experience in the field of activity concerned He is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and has consented to the inclusion of the material in the form and context in which it appears*

## Chairman's Report

Dear fellow shareholder,

KEFI Minerals is focused on the discovery of significant mineral deposits, principally in the Kingdom of Saudi Arabia, an exciting and underexplored new frontier which, in ancient times, produced the gold of King Solomon's Mines and during the reign of the Abbasid Caliphate. We have also evaluated prospects in Turkey, Morocco and elsewhere and this will continue on a selective basis as opportunities arise.

In the Kingdom of Saudi Arabia, we are proud to have established, through the formation of the Gold and Minerals ('G&M') Joint Venture, a strong working relationship with Abdul Rahman Saad Al-Rashid and Sons LLC ('ARTAR'), an unlisted industrial company owned by Sheikh Al-Rashid and his family. The G&M Joint Venture (ARTAR 60%-KEFI 40%) has already earned the trust and co-operation of the regulatory authorities and communities in the Kingdom.

The G&M Joint Venture is conducting grassroots and brownfields exploration programs. Many areas have had no modern exploration, some have not been explored for 30 years and some have not been explored for millennia. Such exploration is definitely high risk, potentially high return. The challenge to identify areas that will evolve from exploration to mining is substantial, difficult and in our view, more than worthwhile.

The Company's strategy is very cost-effective with every one of our highly dedicated full-time personnel focused on activities in the field, often in difficult conditions. Administration support is provided by EMED Mining, one of the Company's largest shareholders of which I am the Managing Director.

Also at this formative early stage, KEFI Minerals is particularly reliant on the support of a few key officers. In this regard, on behalf of my Board colleagues, I wish to pay special recognition to the dedication and contribution of our Managing Director Jeff Rayner. Jeff is a highly effective exploration leader who continues to bring to the task a special energy and flair. On behalf of shareholders and my fellow Directors I would like to thank Jeff, his small dedicated team and the families that support them.

I thank you for your support and look forward to seeing some of you at the Annual General Meeting on 29 June 2012 in London.

*Harry Anagnostaras-Adams*

*Chairman of Directors*

## Managing Director's Report

Dear fellow shareholder,

KEFI Minerals continues to develop its tenement position within the Kingdom of Saudi Arabia as a 40% equity holder and operator of the Gold and Minerals Joint Venture ('G&M') with Abdul Rahman Saad Al-Rashid and Sons LLC ('ARTAR')

In June, 2011, KEFI Minerals announced the grant of G&M's first Exploration Licence ('EL') in the Kingdom of Saudi Arabia, the Selib North Licence, by the Deputy Ministry of Mineral Resources (the 'DMMR'). A further two EL's, H ikyr in and H ikyr in South, were granted by the DMMR post the reporting period in January 2012. The EL's are valid for a period of five years and renewable for further five years thereafter. Field work is already underway at these licences that have been granted with the team also treating safety, the environment and community relations as a priority at all times. We have, through ARTAR, 16 Exploration Licence Applications ('ELA's') and are well placed to move quickly as and when these are granted. Some ELA's are at an advanced stage and more EL's are expected to be issued in 2012.

### Exploration Strategy

The Company focuses on under-explored terrains of the highly prospective Arabian-Nubian Shield and greater East African Orogenic Belt. These cover the western part of the Kingdom of Saudi Arabia, Egypt and Eritrea. Despite sharing a common craton as deposits hosting Sukar i (Egypt 13 Moz Au), Hassa i (Egypt, 2.1 Moz Au), B isha and Zara (Eritrea, 1.8 Moz Au, combined), the Saudi part of the craton hosts more than 12 Moz Au resources contained in deposits such as Mahd adh Dhabab (6 Moz Au historic production). There are only three mining operators in the region and very few other international explorers.

- Our geologists have spent significant time researching and evaluating hundreds of ancient gold prospects in the Precambrian Arabian-Nubian Shield.
- G&M has created a substantial Geological Information System ("GIS") database comprising information on regional and prospect geology, geophysics, geochemistry, topography, remote sensing, alteration studies, structural interpretation, mineral occurrences and previous exploration.

- All of the granted ELs and ELAs each have at least one base metal or gold occurrence and some have a historic mine. Visible gold was discovered on some ELAs and some areas have been the subject of advanced exploration work. This includes trenching and drilling by previous workers, such as the US Geological Survey ('USGS'), Bureau de Recherches Geologiques et Minieres ('BRGM') or other explorers such as Riofinex
- Our aim is to advance each prospect to be tested by an early phase of drilling and to appraise the economic potential as quickly and efficiently as possible

## Funding

G&M is funded as to 60% by ARTAR and 40% by KEFI Minerals. KEFI Minerals completed Placements that raised £1.3m in February 2011 at 5.0p per share and £1.85m in February 2012 at 3.0p per share. Along with the sale of two properties in Turkey this enabled KEFI Minerals to "stretch the reach" of the equity provided by our shareholders.

KEFI has sufficient funds to support operations and notably for the planned 12,000m drilling programme of identified targets on the three granted EL's and on future EL's expected to be granted during 2012 in the Kingdom of Saudi Arabia.

The Company's largest shareholder, EMED Mining, remains supportive, has participated in both equity placings and retains a 16.56% (as at 31 May 2012) of the Company's issued share capital.

## Outlook

We are very pleased with the progress of our exploration programmes via G&M at Hikyrin South and Selib North Projects. We have observed new high-grade gold-bearing veins and mylonitic shear Zones and although much work remains to be done to establish if these are potentially economic, our geologists are making rapid progress in mapping and trench sampling. This will potentially lead to early drill target definition and drilling is currently planned for this year.

We are fully focused on expanding G&M's presence in the Kingdom of Saudi Arabia and are encouraged by our results thus far. These results provide good examples of the benefit of the patient and dedicated efforts and we remain committed to continued and diligent exploration across all our projects.

*Jeffrey Rayner*

*Managing Director*

## Kingdom of Saudi Arabia

### Exploration potential and overview

The Kingdom of Saudi Arabia is a country with a long history of gold and copper mining that dates back over 5,000 years. Major eras of historic gold mining, in what is now the Kingdom of Saudi Arabia, occurred between about 3,000 and 1000 BC and during the Islamic Abbasid period between 750 and 1258 AD.

More recently, from 1936 and 1954, the Saudi Arabian Mining Syndicate conducted exploration and operated the Mahd adh Dhahab (the "Cradle of Gold") gold mine

The Saudi Arabian Directorate General of Mineral Resources initiated significant gold exploration from 1970 1990s The US Geological Survey ('USGS') and the French equivalent, Bureau de Recherches Géologiques et Minières ('BRGM'), were commissioned to evaluate the mineral potential of the Arabian-Nubian Shield They documented the 1,000 historic gold mines within the 5,000 historic metal occurrences in the Arabian-Nubian Shield By 1994, only 51 of these gold occurrences had been drill tested and many had been tested poorly

#### ***Location of G&M Licences and application areas in Saudi Arabia, showing the main gold deposits in the Arabian Nubian Shield.***

Gold is hosted in mesotherma l quartz veins, epitherma l quartz vein systems and in intrusive-related gold systems Base metals are primarily hosted in volcanogenic massive sulphide (VMS) and sedimentary exhalative (SEDEX) style deposits

Ma'aden, the 50% Government owned mining company, is operating 4 open cut and underground mines and 5 processing plants for gold in the Kingdom of Saudi Arabia. They utilise cyanide leach and heap leach technology. Ma'aden has discovered and reported 8 Moz Au in JORC-compliant Resources in 2008 and reported a global +12 Moz Au resource in 2011

Major gold and base metal deposits in the Arabian-Nubian Shield include Centam in's Sukar i Mine, Egypt (>13 Moz AU), Ma'aden's, Mahd adh Dhahab Mine (past production and current resources >6 Moz AU), Barr ick Gold's Jabal Say id deposit, Saudi Arabia (37 5Mt at 2 23% Cu containing 837,000t Cu), Nevsun Resources' B isha Mine, Eritrea (28.3Mt at 1 6% Cu, 1.78 g/t Au, 3.15% Zn and 38 9 g/t Ag), Ma'aden's Ad Duwayah (>2 6 Moz Au) and Ar Rjum (>2 6 Moz Au) deposits and Chalice Gold's Koka deposit, Eritrea (840,000 oz Au).

Exploration activity in the Kingdom of Saudi Arabia has increased over the past several years, driven by the potential of the under explored Precambrian terrain. The new Saudi Mining Investment Code, which came into effect in January 2005, ensures an attractive investment environment for the development of a viable exploration and mining industry

Several new mines are currently being developed in Saudi Arabia Barr ick Gold have scheduled the commissioning of the \$330M Jabal Say id copper mine in 2012, Arabian American has scheduled to bring the Al Masane Zn-Cu-Au mine into production in 2012, Alara Resources is in a joint venture to develop the Khna igu iyah Zn-Cu mine and London Mining is in a joint venture to produce a bankable feasibility study to develop the \$1 9b Wadi Sawaw in iron project

## Projects - Saudi Arabia

G&M has at present, 3 granted ELs and a further 16 ELs in application The G&M Joint Venture first applied for exploration title in 2009 and the first tenement was granted in 2011 (Selib North Licence) and in January 2012 (H ikyr in and H ikyr in South Licences )

*Table of all G&M Licences and Applications, showing the stages reached in the licence permitting process.*

## Selib North

Selib North was formally granted by the DMMR in June 2011. It covers a 75 km<sup>2</sup> area comprising extensive ancient shallow eluvial and hard rock gold workings over a 3 km strike length of Proterozoic volcanic and metasedimentary host rocks.

Selib North is located immediately south of the ancient Fawarah gold mine and immediately north of the ancient Selib gold mine. The Al Amar gold mine is located 65 km to the north. It is currently operated by Ma'aden. Published mineral resources for the Al Amar gold mine comprise 2.0 Mt at 11.2g/t Au (containing 722,000 oz Au).

Mineralisation and associated alteration in the Selib North area is hosted by mylonitic and listwaenite shear zones and in quartz veins. There are references in BRGM reports that this mineralisation style is similar to Ma'aden's Ad Duwayh deposit which contains >2.6 Moz Au.

### Exploration Activities

Field work initially commenced in July, 2011 and recommenced in October, 2011 after the Holy Ramadan period. The G&M Joint Venture commissioned an ASTER remote sensing study over the Licence area. This involves the interpretation and processing of thermal emission and reflection spectra. The subsequent processing of imagery generated more than 10 areas of prospective silica-iron oxide and clay-carbonate alteration zones.

***Geological and prospect location map of the Selib North Licence.***

Follow-up of the ASTER anomalies, combined with other structural targeting techniques resulted in the discovery of three new areas of gold mineralisation with no evidence of ancient mining.

The largest area, Area 9 covers a 2 km-long zone of narrow, high-grade quartz veins and is located 3 km north of the ancient mines at Selib North. Rock chip sampling returned up to 28.3 g/t Au and 27.7 g/t Au in grab samples. The best results from rock chip channel sampling included 7 m at 1.18 g/t Au, 3m at 1.5 g/t Au and 1m at 5.45 g/t Au. The quartz veins are narrow, generally less than 0.5 m wide, and are hosted in carbonate-altered shear zones up to 20 m wide and up to 2 km in strike.

Additional quartz veins were also located in an area 4 km west of the Selib North ancient workings. The highest 1 m channel sample result was 14.3 g/t Au. Mineralised veins are also hosted in a separate corridor 1 km east of Selib North ancient workings. The veins are dispersed over a 4 km long area and assayed up to 5.9 g/t Au.

Initial results from ongoing exploration trenching in a new area 1k m NNW of the main Selib North workings have returned the following results;

Trench 2, 7 m at 0.49 g/t Au, Trench 3, 6 m at 0.97 g/Au, Trench 7, 17 m at 3.43 g/t Au and Trench 8, 6 m at 1.03 g/t Au. Gold is hosted in a carbonate altered dyke in a shear zone which is traced over 200 m and open to the north. Trenching is ongoing and further results will be announced at the completion of the programme.

Drilling in part of the three locations is planned in June 2012 to test for the bulk tonnage potential of the quartz veins and shear zones

## **Geology and licence background**

Numerous small scale hard rock, alluvial, and eluvial gold workings, are located within the Selib North Licence area which is aligned along a 10 k m long north-south trending major crustal fault zone. These gold workings were recorded but not mapped or sampled by the BRGM

Gold mineralisation in the various prospects in the Selib North EL, are hosted in ophiolitic rocks that are cut by the Al A mar — Idsas Fault Zone. The host rocks are mainly serpentinite and listwaenite, metabasalt and diorite. They are cut by north-striking quartz and carbonate veins. The veins, now the sites of ancient trenches, are distributed over a band 1.8 k m long and 0.3 k m wide at the ancient Selib mines (located immediately south of the Selib North Licence area), and 2.0 k m long and 0.2 k m wide at Fawarah. Historic mining that took place was mainly by panning of crushed quartz and host rock. In places, there is visible gold.

### ***Sampling on one of the new gold discoveries at Selib North.***

The Selib prospect was explored by BRGM in 1982. Numerous alluvial and eluvial pits mark the base of the ridge at Selib. Results from soil geochemistry defined a 1.8 k m long by 350 m wide north-south zone at the 50 ppb Au contour with a maxima of 2,700 ppb Au. The geochemical anomalies were tested in three small areas over the 1.8 k m strike length by the BRGM with 16 percussion drill holes for a total 1,784 m. The best intercept obtained in the drill programme was 8.4 g/t Au over 1.5 m. The soil anomaly is open to the north and continues into G&M Joint Venture's Selib North EL.

The gold anomalies in soil and rock at the Fawarah mine are open to the south and continue into the Selib North EL. Gold is hosted in quartz lodes in altered gabbro, diorite, serpentinite, and carbonate rocks. Mineralised zones of >0.2 g/t Au attain widths of up to 20 m with maximum values of 8.3 g/t Au and 2.3 g/t Ag. A total of four percussion drill holes were drilled for 420 m at Fawarah, with a best result of 3 m at 6.78 g/t Au.

No exploration, including soil sampling or drilling was carried out by the BRGM on the Selib North prospect.

## **Hikyryn and Hikyryn South**

The Hikyryn and Hikyryn South EL's were formally granted by the DMMR in January 2012. The licences host favourable shear zones, fault structures, quartz-veined alteration zones and contains ancient hard rock workings for gold. The two licences are contiguous and cover a combined total area of 151 km<sup>2</sup>. The claims are located within the well-mineralized Central Arabian Gold Region which is host to Ma'adeh's Ar Rjum deposit (2.65 Moz Au), located 30 km to the south of the Hikyryn tenements and Ash Shaktaliyah deposit (0.3 Moz Au), 10 km to the east of the Hikyryn tenements.

In the southeast quadrant of the Hikyryn South tenement, ancient mining exploited gold-bearing quartz veins at the Houimedah West deposit in near surface diggings over approximately 700 m of strike length.

*Geological and Prospect location map, Hikyryn South Licence.*

## Exploration Activities

Post the reporting period in 2012, systematic evaluation of the Hikyryn South Licence began with a soil sampling program over the entire licence area. This was followed by detailed geological mapping and sampling in the vicinity of the Houimedan West ancient workings.

These efforts outlined gold-in-soil anomalies which warranted infill definition soil sampling and may lead to drill testing in the central part of the claim.

At Houimedan West, samples taken from the waste dumps of ancient mining have returned up to 16.3 g/t Au and at an average of 5.9 g/t from 24 samples spread over a 700 m strike length.

### *Trench sampling at the Houimedan West Prospect, Hikyryn South Licence*

These results support the high gold grades of the quartz veins in the dumps which were sampled by BRGM in the 1980s when they reported assay results up to 78.6 g/t Au. The individual quartz veins are narrow, generally 0.2 to 0.6 m wide, and occur in a sheared and hematite-altered zone of up to 4 m width.

Mapping, trenching across the workings, and rock chip channel sampling of the mineralised structures is currently underway and a first phase programme of reverse circulation (RC) and diamond drilling is planned to commence in June 2012.

## *Reconnaissance Sampling in Saudi*

### **Strategic Plan in the Kingdom of Saudi Arabia**

KEFI Minerals and Abdul Rahman Saad Al-Rashid and Sons LLC ('ARTAR'), entered into a Heads of Agreement in mid 2008, which was formalised into the G&M Joint Venture ('G&M') in 2010, to explore and develop gold and associated base metal deposits in the highly prospective Precambrian Arabian-Nubian Shield.

KEFI Minerals is the operating partner with a 40% interest with ARTAR holding the remaining 60%

KEFI Minerals provides technical advice and assistance, including personnel to manage and supervise all exploration and technical studies. ARTAR provides local personnel, administrative advice, and assistance in permitting Exploration Licences and to ensure the G&M remains in compliance with all governmental and other procedures.

ARTAR is a privately owned multi-billion dollar Saudi company based in Riyadh and involved in the construction of mining infrastructure, shopping mall complexes, residential estates, high rise buildings, agriculture, investment and health care. ARTAR also operates in Europe, USA and Asia.

The Kingdom of Saudi Arabia has instituted policies to encourage minerals exploration and development and KEFI Minerals supports this priority by serving as the technical partner within the G&M Joint Venture. ARTAR also serves this Government policy as the major partner in the G&M Joint Venture which is one of the early movers in the modern resurgence of the Kingdom's minerals sector. Initial licence applications were lodged by ARTAR on behalf of the G&M Joint Venture. The joint venture company has now been fully incorporated and granted licences will be transferred to the G&M Joint Venture in due course.

G&M licence applications are at various levels of exploration prospectivity. Some prospects within the G&M Joint Venture ELA's have historically reported drill intercepts of up to 6 m at 3.54 Au, 6 m at 13.1 Au, 21 m at 3.32 g/t Au, 4 m at 4.93 g/t Au from shallow (less than 70 m depths) but these have yet to be verified in accordance with current reporting standards.

### *Sampling old workings at an ancient gold mine.*

The G&M Joint Venture looks forward to introducing the latest international exploration techniques to parts of the Kingdom and is dedicated to developing long term minerals operations which is expected to be facilitated by ARTAR's status as a major industrial conglomerate.

## **Projects - Turkey**

KEFI Minerals continues to focus on developing projects in under-explored countries with excellent potential for discovery of major gold and copper mines. Turkey has a long history of mining and is host to world-class gold and base metal deposits that are being exploited commercially.

Although there remains significant exploration potential for new gold and copper discoveries in Turkey, KEFI Minerals has chosen to divest its existing properties due to their being down-graded by results and by our strategy of tenement watch and being alert to more attractive opportunities.

In February 2012, after a two year hiatus the Department for Mines and Energy resumed the auctioning of Group IV (precious metals) licences. From early 2010, no new ground was released for exploration. This has been a major impediment to grass roots exploration and project generation in Turkey.

The Company monitors the release of these new areas and is well placed to assess potential targets using its proprietary exploration data base on Turkey. This database was originally compiled by Niugini Mining in the 1980s and has been significantly augmented by KEFI Minerals since 2007.

Unlike most countries, Turkey does not have an open-file reporting system whereby exploration data from previous work on an area can be made available to the current titleholder. The KEFI Minerals' database thus provides a competitive advantage in identifying prospective areas for project generation in Turkey.

The Company presently holds title to 8 exploration licences in Turkey -the Bakır Tepe project (7 licences) and the Hasan Ce lebi Project (1 Licence)

The Bakır Tepe project area is located within the Lycian Ophiolite Complex, which forms part of the Taurides Ophiolite Complex in southern Turkey and is prospective for VMS style copper and gold mineralisation. High grade gold and copper from surface sampling was drill tested in JV with Canadian miner Centerra Gold in 2010. The 4 drill hole programme failed to intersect VMS style mineralisation, however, the associated IP geophysical anomaly remains unexplained.

Major VMS deposits hosted in the Tauride Ophiolite Complex includes the operating Sirt Madenkoy Cu-Au mine (with a pre-mining reserve of 14 Mt at 3% Cu and 1g1t Au) and the now exhausted Ergani-Maden mines. The latter were mined in ancient times and more recently from 1939 to 1968, producing approximately 6.1 Mt of ore containing 6.5% copper.

The Hasan Ce lebi property is located in central Turkey, immediately east of the high sulphidation gold prospect of the same name, which is currently being explored by Canadian miner Teck Cominco, in a Joint Venture with AIM Listed Stratex International Resources.

#### ***KEFI geologists and field staff in Saudi.***

Teck Cominco has intersected large intervals of low grade gold mineralisation in drilling high sulphidation epithermal silica zones, potentially overlying a porphyry copper gold deposit at depth. The mineralisation potentially continues eastwards along strike into KEFI's Hasan Ce lebi licence area.

## **Sale of Gold Exploration Properties in Turkey**

The decision to sell the assets in western Turkey is in line with KEFI Mineral's decision to focus on its projects in the Kingdom of Saudi Arabia, and is consistent with the Company's policy to continually rapidly assess and, where appropriate, turnover projects in our exploration portfolio.

Following the sale of the Yatık epithermal gold property to local miner, Koza Gold in 2010, KEFI successfully divested four Licences in July 2011 to AIM listed Ariana Resources (AIM AAU) for a cash payment of 10,000 Turkish Lira, 910,747 new ordinary shares in Ariana and a Net Smelter Royalty (NSR) of 2%. The NSR is payable by Ariana's wholly owned Turkish subsidiary Galata Madencilik San. VE Tic. Ltd on commercial production of any mineral from the licences. The licences sold included the Derinin Tepe Project, also known as Kizilcukur, (1 Licence), Muratdag (2 Licences) and the Yatık West Project (1 Licence)

In August 2011, KEFI Minerals, completed the sale the Company's Artvin Project in northeastern Turkey to a Turkish mining company. The Artvin Project comprised 15 Exploration Licences (totalling 254 km<sup>2</sup>) located in the Eastern Pontide Belt in northeastern Turkey. The company, Kackar Madencilik San. VE Tic. Ltd, KEFI's subsidiary holding these licences, was sold in return for a cash payment of US\$ 100,000 and a 1% NSR on all future mineral production from the Artvin licences

## **Due Diligence - Morocco Tailings Project**

In July 2011, KEFI entered into an Agreement with a Moroccan company (Roche Invest SARL) giving KEFI a five month exclusivity period to conduct due diligence investigations to assess a potential joint venture over the abandoned Tiout Au-Cu Mine and associated tailings retreatment project in the Atlas Mountains of Morocco

KEFI conducted a programme of open hole percussion drilling on approximate 50 m x 25 m and 25 m x 25 m grids on the tailings dams. Recalculation of the resource taking into account the result of the drilling programme showed that the tailings tonnage had been overestimated by 40% from that previously thought. For this, among other reasons, the option with Roche was not exercised

## Glossary

Arabian Shield	The Arabian Shield is a large area of Precambrian rocks on the eastern flank of the Red Sea, which measures approximately 1,500km north-south and 800km east-west
ASTER	Advanced Spaceborne Thermal Emission and Reflection Radiometer
ARTAR	Abdul Rahman Saad Al-Rashid & Sons Company Limited
BRGM	Bureau de Recherches Géologiques et Minières — the Geological Survey of France
Centerra Gold	A wholly-owned subsidiary of Centerra Gold Inc of Canada
DMMR	Deputy Ministry for Mineral Resources — Kingdom of Saudi Arabia
ELA	Exploration Licence Application
Epithermal	Hydrothermal mineral deposit formed within about 1 km of the Earth's surface and in the temperature range of 50 to 200 degrees Celsius, occurring mainly as veins
at	Grams per tonne
G&M Joint Venture	<p>In 2009 the Company announced the formation of an exploration joint venture in the Kingdom of Saudi Arabia with Saudi construction and investment group Abdul Rahman Saad Al-Rashid &amp; Sons Company Limited ('ARTAR') KEFI Minerals is the operating partner with a 40% interest and ARTAR holding the other 60%- the G&amp;M Joint Venture.</p> <p>KEFI Minerals provides the Joint Venture with technical advice and assistance, including personnel to manage and supervise all exploration and technical studies while ARTAR provides administrative advice and assistance to ensure that the Joint Venture remains in compliance with all governmental and other procedures</p>
Gossan	An iron-bearing weathered product overlying a sulphide deposit
IP	Induced polarisation - a ground-based geophysical survey technique measuring the intensity of an induced electric current, used to identify disseminated sulphide deposits
Mafic	Pertaining to, or composed dominantly of, the dark coloured ferromagnesian rock forming silicates
Massive sulphide	Rock comprised of more than 40% sulphide minerals
Mesothermal	Hydrothermal mineral deposit formed at considerable depth and in the temperature range of 200 to 300 degrees Celsius
Ophiolite	Mafic and ultramafic rocks formed initially at sites of sea-floor spreading which have been thrust onto continents by plate-tectonic forces

## Glossary (continued)

Porphyry deposits	Large tonnage, low-grade mineral deposits associated with rocks which typically form in felsic igneous rocks and contain copper and gold or molybdenum
Precambrian	Era of geological time before the Cambrian, from approximately 4,600 to 590 million years ago
USGS	United States Geological Survey
VHMS deposits	Volcanic-hosted massive sulphides; refers to massive sulphide deposits formed in a volcanic environment with varying base metals (copper, lead and zinc) often with significant additional gold and silver

## KEFI MINERALS PLC

### REPORT AND CONSOLIDATED FINANCIAL STATEMENTS Year ended 31 December 2011

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## KEFI MINERALS PLC

### BOARD OF DIRECTORS, OFFICERS AND ADVISERS

<b>Board of Directors</b>	Aristidis Eleftherios (Harry) Anagnostaras-Adams <i>Non Executive – Chairman</i> Ian Rutherford Pimer <i>Non executive Director – Deputy Chairman</i> Jeffrey Guy Rayner <i>Managing Director</i> John Edward Leach <i>Finance Director</i>
<b>Company Secretary:</b>	Cargil Management Services Limited 22, Melton Street London NW1 2WB United Kingdom
<b>Auditors:</b>	Moore Stephens LLP 150, Aldersgate Street London EC1A 4AB United Kingdom
<b>Registered Office</b>	27/28, Eastcastle Street London W1W 8DH United Kingdom
<b>Bankers.</b>	Allied Irish Bank (GB) Mayfair Branch 10, Berkeley Square London W1J 6AA United Kingdom
<b>Solicitors*</b>	Field Fisher Waterhouse LLP 35, Vine Street London EC3N 2AA United Kingdom
<b>Share Registrar:</b>	Share Registrars Limited Suite E, 1st Floor 9 Lion & Lamb Yard, Farnham Surrey GU9 7LL United Kingdom Registered in England & Wales No 4715037
<b>Nominated Advisor and Broker</b>	Fox Davies Capital Limited 1 Tudor Street London EC4Y 0AH United Kingdom

## KEFI MINERALS PLC

### REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report for KEFI Minerals plc ("KEFI Minerals") and its subsidiaries (the "Group") together with the financial statements of the Group for the year ended 31 December 2011

#### Incorporation and Principal activity

KEFI Minerals plc was incorporated on 24 October 2006 and shortly thereafter acquired the exploration assets of EMED Mining Public Limited in Turkey and Bulgaria. KEFI Minerals was admitted to AIM in December 2006 with a market capitalisation of GBP2.7 million at the placing price.

The principal activities of the Group for the year were:

- To explore for mineral deposits of precious and base metals and other minerals that appear capable of commercial exploitation, including topographical, geological, geochemical and geophysical studies and exploratory drilling
- To evaluate mineral deposits determining the technical feasibility and commercial viability of development, including the determination of the volume and grade of the deposit, examination of extraction methods, infrastructure requirements and market and finance studies
- To develop, operate mineral deposits and market the metals produced

#### Review of Operations

In Saudi Arabia, the G&M JV was granted three EL's by the DMMR. The first, "Selib North", was granted in June 2011 and a further two, "Hikyryn" and "Hikyryn South", were granted in January 2012. A further sixteen ELA's are currently lodged with the DMMR and in various stages of permitting. It is expected that further Licence grants will be received during 2012.

The licence application areas are prospective for gold in shear zones and quartz veins, and gold and base metals in VMS styles of mineralisation.

The ELA's were initially applied for by G&M JV Partner, "ARTAR". Incorporation of G&M is now complete and granted Licences will be transferred into the JV company in due course. Field work performed to date on the three granted EL's has resulted in the discovery of new mineralised zones at Selib North and confirmation of high grade gold mineralisation in the ancient mine workings in Hikyryn South,

- Processing of ASTER imagery covering the Selib North Licence generated over ten areas of prospective alteration zones and resulted in the discovery of three new areas of gold mineralisation with no evidence of ancient mining
- The largest area, "Area 9" covers a 2km long zone of narrow, high grade quartz veins and is located 3km north of the ancient mines at Selib North. Rock chip sampling returned up to 28.3 g/t Au and 27.7 g/t Au in grab samples. The best results from channel sampling included 7m at 1.18g/t Au, 3m at 1.5 g/t Au and 1m at 5.45 g/t Au. The veins are hosted in carbonate altered shear zones up to 20m width and up to 2km in strike. Results to hand on a new discovery 1km north west of the Selib North old workings return Trench 2, 7m at 0.49 g/t Au, Trench 3, 6m at 0.97 g/Au, Trench 7, 17m at 3.43 g/t Au and Trench 8, 6m at 1.03 g/t Au. Gold is hosted in a carbonate altered dyke in a shear zone which is traced over 200m and open to the north. Trenching is on-going and further results will be announced at the completion of the programme
- Soil sampling program over the entire Hikyryn South licence area outlined gold-in-soil anomalies warranting drill testing in the central part of the claim
- Samples taken from the waste dumps of ancient mining at the Houimedan West prospect, in Hikyryn South have returned up to 16.3 g/t Au at an average of 5.9 g/t from 24 samples spread over a 700m strike length

These prospects at Selib North and Hikyryn South are planned to be drill tested during 2012.

In Turkey, in line with the Company's strategy to focus on Saudi Arabia and to divest properties downgraded by exploration work, the Artvin Project licences (15 in total) held by a subsidiary, were sold to a Turkish company for a net cash consideration of US\$100,000 and a future 1% Net Smelter Royalty "NSR" on all minerals produced, and 4 licences were sold to Ariana Resources for a nominal cash payment of 10,000 Turkish Lira, 910,747 new ordinary shares in Ariana and an NSR of 2% on all minerals produced. No value has been attributed in these financial statements for the NSRs.

## KEFI MINERALS PLC

### REPORT OF THE BOARD OF DIRECTORS (continued)

#### Review of Operations (continued)

KEFI entered into an Agreement giving the Company a five month exclusivity period to conduct due-diligence investigations to assess a potential joint venture over the abandoned Tiouit Gold-Copper Mine and associated tailings retreatment project in the Atlas Mountains of Morocco. The results of the due diligence indicated less potential than initially envisaged and the Option was allowed to lapse.

#### Funding

The Company is well funded having completed equity placings in 2011 and post the reporting period, in February 2012. Additional funding was received from the sale of two licences in Turkey and through our Joint Venture partner in Saudi Arabia, which has enabled the Company to leverage the equity from our shareholders.

KEFI Minerals completed placements that raised GBP1.3 million in February 2011 at 5p per share and GBP1.85 million in February 2012 at 3p per share.

The Company has sufficient funds for the planned 12,000m drilling program of identified targets on at least four EL's in Saudi Arabia during 2012.

The Company's largest shareholder, EMED Mining remains a supportive shareholder and participated in both placings and retains a 16.56% of the Company's issued share capital (as at 31 May 2012).

Key Performance Indicators for the Group are not considered relevant for the year ended 31 December 2011 because the Group is still in the exploration phase of its activities. However, careful monitoring has been carried out in respect of cash management. This includes the periodic review of the Group's results through management accounts, appraisal of technical reports, monitoring of the marketplace and the Company's physical presence in the Kingdom of Saudi Arabia, including attendance at regular board meetings of the G&M Joint Venture.

#### Results

As at 31 December 2011, the Group had a net working capital of GBP518,000 and the Company's market capitalisation was GBP14.2 million. At year end the Group had equity of GBP701,000.

During the year 2011, the Group has incurred exploration expenditure of GBP426,000 from operations and an operating loss of GBP1,578,000.

The Company made several successful placements during the year raising GBP1.45 million as follows:

Issued	GBP'000
4 January 2011 at GBP0.0125	20
28 January 2011 at GBP0.031	37
21 February 2011 at GBP0.05	1,300
5 March 2011 at GBP0.0288	37
5 March 2011 at GBP0.0125	23
5 March 2011 at GBP0.016	11
6 April 2011 at GBP0.016	9
20 June 2011 at GBP0.0122	6
7 November 2011 at GBP0.0472	9
	<hr/>
	1,452

## KEFI MINERALS PLC

### REPORT OF THE BOARD OF DIRECTORS (continued)

#### Results (continued)

All exploration expenditure is written off when incurred in accordance with IFRS6, pending Directors' decision to commence project development. This policy is a major factor in the Group recording a net loss for the year of GBP1,592,000.

	2011 GBP'000	2010 GBP'000
Exploration expenditure	(426)	(247)
Administrative expenses	(908)	(590)
Share-based payments	(157)	(30)
Share of loss from jointly controlled entity	(154)	(230)
Other income	67	153
Negative goodwill	-	314
Foreign exchange loss	(13)	(53)
Finance cost	-	(4)
Tax	(1)	(15)
Loss for the year	<u>(1,592)</u>	<u>(702)</u>

The Group's results for the year are set out on page 30

#### Board of Directors

The members of the Board of Directors of the Company as at 31 December 2011 all of whom served throughout the year and at the date of this report are shown on page 19. In accordance with the Company's Articles of Association, one third of the board of directors must resign each year. The remaining directors, presently members of the Board, will continue in office.

The Board comprises four Directors

#### Harry Anagnostaras-Adams

##### Non-Executive Director – Chairman

Mr Anagnostaras-Adams (B Comm, MBA) has been Non-Executive Chairman since the Company listed in 2006 and is Chairman of the Group's Remuneration Committee and Physical Risks Committee. Mr Anagnostaras-Adams holds a Bachelor of Commerce (Finance and Systems) from the University of New South Wales, Australia and a Master of Business Administration from the Australian Graduate School of Management.

Mr Anagnostaras-Adams serves on the Board of AIM and TSX - listed, EMED Mining Public Limited as Managing Director. Mr Anagnostaras-Adams has previously served as the Managing Director of ASX and AIM-listed, Gympie Gold Limited, Executive Director of investment company Pilatus Capital Ltd., General Manager of resources investment group Clayton Robard Limited Group, Senior Investment Manager of Citicorp Capital Investors Australia Ltd and serves (or has served) as a non-executive Director of many other public and private companies across a range of industries. He qualified as a Chartered Accountant while working with PricewaterhouseCoopers and has a Master of Business Administration from the Australian Graduate School of Management where he was awarded the John Story Memorial Prize as outstanding graduate.

#### Ian Rutherford Plimer

##### Non-Executive Director – Deputy Chairman

Professor Plimer was appointed Non-Executive Deputy Chairman in December 2006 and is Chairman of the Group's Audit Committee. Ian Plimer (B Sc [Hons], PhD, FTSE, FGS, FAIMM) is Professor of Mining Geology at The University of Adelaide (2005-2012) and was previously Professor and Head of Earth Sciences (University of Melbourne 1992-2005, currently Emeritus Professor) and Professor and Head of Geology (University of Newcastle 1985-1991). Previously he worked in the Australian mining industry and at various other universities. He is a prominent Australian geologist, has published 130 scientific papers, seven books and is a regular broadcaster and author. He was director of CBH Resources Ltd (ASX CBH) from 1998 until takeover in 2010 and sits on the boards of Ivanhoe Australia Ltd (ASX IVA, TSX IVA, lead director plus Audit, Safety, Remuneration Committees), Numinco Group Ltd (ASX OMX, plus Safety and Audit Committees) and Silver City Minerals Ltd (ASX SCI, plus audit and safety committees).

## KEFI MINERALS PLC

### REPORT OF THE BOARD OF DIRECTORS (continued)

#### Board of Directors (continued)

##### **Jeffrey Guy Rayner** **Managing Director**

Mr Rayner joined EMED Mining Public Limited in 2006 and managed its Eastern European projects, resulting in the early drill discovery of the Biely Vrch gold deposit in Central Slovakia. Mr Rayner was appointed Managing Director of KEFI Minerals in November 2006.

Mr Rayner is a geologist (BSc Hons) with 25 years experience in gold exploration and mining in Australia, Europe and Asia. Mr Rayner started his career in Australia with BHP Gold and later Newcrest Mining Limited. He was involved in the early exploration discovery of the Cracow and Gosowong epithermal deposits and the Cadia Hill deposit, presently operating mines. In 1998 he joined Gold Mines of Sardinia plc as exploration manager, responsible for exploration and mining in Sardinia and project generation in Europe. As part of his time at Gold Mines of Sardinia plc he led the exploration discovery of the Monte Ollasteddu gold deposit in Sardinia.

##### **John Edward Leach** **Finance Director (part-time)**

Mr Leach was appointed Finance Director in December 2006 on a contract basis in accordance with the terms of the Services Agreement dated 7 November 2006.

Mr Leach is a Canadian and Australian citizen based in Nicosia, Cyprus. Mr Leach holds a Bachelor of Arts (Economics) and a Masters of Business Administration. Mr Leach is a member of the Institute of Chartered Accountants (Australia), the Institute of Chartered Accountants in Ontario, the Canadian Institute of Chartered Accountants (Australia) and a Fellow of the Australian Institute of Directors. He has over 25 years experience in senior financial and executive director positions within the mining industry internationally. Mr Leach serves on the Board of AIM and TSX listed EMED Mining Public Limited as Finance Director (since 2007), and is a former member of the boards of Resource Mining Corporation Limited (2006 to 2007) and Gympie Gold Limited (1995 to 2003).

#### Directors' interests

The interests of the Directors and their immediate families (all of which are beneficial unless otherwise stated) and of persons connected with them in the existing ordinary shares as at the date of this document are as follows:

Director	Number of Existing Ordinary Shares	% of Issued Share Capital
H Anagnostaras-Adams	1,966,667	0.46%
I Plimer	2,250,000	0.53%
J Rayner	1,533,333	0.36%
J Leach	1,000,000	0.23%

The Directors to whom options over ordinary shares have been granted and the number of ordinary shares subject to such options are as follows:

Grant Date	Expiration Date	Exercise Price	H Anagnostaras-Adams	I Plimer	J Rayner	J Leach
12 Dec 2006	11 Dec 2012	3.0p	4,000	2,000	5,000	1,000
12 June 2009	11 June 2014	2.4p	2,000	2,000	3,000	1,000

## KEFI MINERALS PLC

### REPORT OF THE BOARD OF DIRECTORS (continued)

#### Directors' emoluments

In compliance with the disclosure requirements of the listing requirements of AIM, the aggregate remuneration paid to the directors of KEFI Minerals for the year ended 31 December 2011 is set out below

#### 31 December 2011

	Fees/basic salary GBP'000	Share based payments GBP'000	2011 Total GBP'000
<b>Executive</b>			
J Rayner	181	-	181
<b>Non-Executive</b>			
I Plimer	15	-	15
	<u>196</u>	<u>-</u>	<u>196</u>

#### 31 December 2010

	Fees/basic salary GBP'000	Share based payments GBP'000	2010 Total GBP'000
<b>Executive</b>			
J Rayner	161	-	161
<b>Non-Executive</b>			
I Plimer	15	-	15
	<u>176</u>	<u>-</u>	<u>176</u>

#### Shareholders holding more than 3% of share capital

The Shareholders holding more than 3% of the share capital of the Company as at 31 December 2011 were

Name	Number of existing Shares '000	% of issued share capital
EMED Mining Public Limited	67,333	18.44%
TD Direct Investing Nominees (Europe) Limited	45,174	12.37%
Hargreaves Lansdown (Nominees) Limited	35,428	9.70%
Barclayshare Nominees Limited	30,353	8.31%
LR Nominees Limited	21,511	5.89%
HSDL Nominees Limited	21,140	5.79%
Alibank London Nominees Limited	19,167	5.25%
Fitel Nominees Limited	16,577	4.54%
James Capel (Nominees) Limited	15,775	4.32%

#### Creditors' payment terms

We do not have specific policy towards our suppliers and do not follow any code or standard practice. However, we settle terms of payment with suppliers when agreeing overall terms of business, and seek to abide by the terms of the contracts to which we are bound. The trade creditor days of the Group as at 31 December 2011 were 45 (2010: 40 days) and for the Company were 70 (2010: 50 days).

## **KEFI MINERALS PLC**

### **REPORT OF THE BOARD OF DIRECTORS (continued)**

#### **Political and charitable donations**

No political or charitable donations were made during 2011 (2010 Nil)

#### **Corporate governance**

The Directors are aware of the UK Corporate Governance Code applicable to listed companies. The Directors note that as an AIM company there is no requirement to adopt the Combined Code. The Directors intend to comply with its main provisions as far as is practicable having regard to the size of the Group. The board remains accountable to the Company's shareholders for good corporate governance.

#### **The Board of Directors**

The Company supports the concept of an effective Board leading and controlling the Company. The Board is responsible for approving Company's policies and strategies. It meets at least every three months and is supplied with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense. Training is available for new Directors and other Directors as necessary. A number of the Group's key strategic and operational decisions are reserved exclusively for the decision of the Board.

The Board consists of one full time Executive Director who holds a key operational position in the Company (the Managing Director), one part-time Executive Director and two Non-Executive Directors. These Directors, all of whom are independent of management and any business or other relationship which could interfere with the exercise of their independent judgment, bring a breadth of experience and knowledge to the Company. The Board regularly reviews key business risks, including the financial risks facing the Group in the operation of its business.

The Company has adopted a model code for Directors' dealings which is appropriate for an AIM listed company. The Directors intend to comply with Rules 21 and 31 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Group's applicable employees as well.

#### **Board committees**

An Audit Committee, comprising two non-executive Directors, has been established by the Company. The Audit Committee is chaired by Professor Plimer and meets on a regular basis each year. The Audit Committee is responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported on and for meeting with the Group's auditors and reviewing their reports on the accounts and the Group's internal controls.

The Company has in addition established a Remuneration Committee, comprising two non-executive Directors. The Remuneration Committee is chaired by Mr Anagnostaras-Adams. The Remuneration Committee is responsible for reviewing the performance of the executives, setting their remuneration, determining the payment of bonuses, considering the grant of options under any share option scheme and, in particular, the price per share and the application of performance standards which may apply to any such grant.

The Company has also established a Physical Risks Committee, comprising two non-executive Directors. The Physical Risks Committee is chaired by Mr Anagnostaras-Adams and is responsible for reviewing the compliance with regulatory and industry standards for environmental performance and occupational health and safety of personnel and the communities affected by the Company.

## **KEFI MINERALS PLC**

### **REPORT OF THE BOARD OF DIRECTORS (continued)**

#### **Principal risks**

The Group's risks and use of financial instruments are described in Note 3 to the consolidated financial statements. Other risks are described in the Chairman's and Managing Director's Reports

#### **Subsequent events**

In January 2012, the Company announced that it had decided to allow its exclusivity period over the tailings retreatment project and mining of remnant ore at the Tiout Mine in Morocco, to lapse. The due diligence and evaluation work that was conducted during the exclusivity period, since July 2011, which involved drill testing, metallurgical testwork, the compilation of historic mining and exploration data, and the investigation of abandoned underground mine works, demonstrated less potential than initially envisaged. The amount of US\$250,000 which was paid for this has been expensed in 2011.

In February 2012 the Company raised additional funds by the issue of 61.7 million shares at 3p to raise GBP1 85 million.

In April 2012 the Company announced the formal granting of the Hikyrin South and Hikyrin licenses in Saudi Arabia, with the respective field work having advanced to the stage of drilling, which is planned to commence during the second quarter of 2012.

No other events have arisen since the end of the financial year that have significantly affected the operations of the Group.

#### **Future developments**

We will continue to focus our efforts in Saudi Arabia with the objective of identifying mineral prospects for further exploration and development.

#### **Auditors**


The auditors, Moore Stephens LLP, have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

#### **Directors' confirmation**

Each of the persons who is a director at the date of approval of this annual report confirms that

- there is no relevant audit information of which the Company's auditors are unaware, and
- each Director has taken all the steps that ought to have been taken as a Director, including making appropriate enquiries of fellow Directors and of the Company's auditors for that purpose, in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

#### **By Order of the Board**

  
Cargo Management Services Limited  
22, Melton Street  
London  
NW1 2WB  
United Kingdom  
Secretary

**6 June 2012**

## **KEFI MINERALS PLC**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors prepare the consolidated financial statements in accordance with IFRS as adopted by the European Union and applicable law. The financial statements must, in accordance with IFRS as adopted by the European Union, present fairly the financial position and performance of the Company, such references in the UK Companies Act 2006 to such financial statements giving a true and fair view are references to their achieving a fair presentation. Under Company law Directors must not approve the financial statements unless they are satisfied that they give a true and fair view. The Directors are also required to prepare the financial statements in accordance with the rules of the London Stock Exchange for companies trading on the Alternative Investment Market

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether the consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KEFI MINERALS PLC**

We have audited the financial statements of KEFI Minerals Plc for the year ended 31 December 2011 which are set out on pages 30 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 30, 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 applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company'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 and the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KEFI MINERALS PLC (continued)

### Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 to the financial statements concerning the company and group's ability to continue as a going concern. The going concern presumption may not be appropriate because its validity depends principally on the discovery of economically viable mineral deposits and the availability of subsequent funding to extract the resource or alternatively the availability of funding to extend the group's exploration activities. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company and group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company and group were unable to continue as a going concern.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Michael Simms, *Senior Statutory Auditor*

For and on behalf of Moore Stephens LLP, Statutory Auditor  
150 Aldersgate Street  
London  
EC1A 4AB

6 June 2012

**KEFI MINERALS PLC**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 December 2011

	Notes	2011 GBP'000	2010 GBP'000
<b>Revenue</b>		-	-
Exploration costs		(426)	(247)
<b>Gross loss</b>		(426)	(247)
Administrative expenses		(908)	(590)
Share-based payments	18	(157)	(30)
Share of loss from jointly controlled entity	19	(154)	(230)
Other income	4	67	153
Negative goodwill	13	-	314
<b>Operating loss</b>	5	(1,578)	(630)
Foreign exchange loss		(13)	(53)
Finance costs	7	-	(4)
<b>Loss before tax</b>		(1,591)	(687)
Tax	9	(1)	(15)
<b>Loss for the year</b>		(1,592)	(702)
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operations		37	44
<b>Total comprehensive loss for the year</b>		(1,555)	(658)
<b>Basic and fully diluted loss per share (pence)</b>	10	0.44	0.24

The Company has taken advantage of the exemption conferred by section 408 of Companies Act 2006 from presenting its own statement of comprehensive income. Loss after taxation amounting to GBP2.0 million (2010 GBP0.6 million) has been included in the financial statements of the parent company.

KEFI MINERALS PLC

STATEMENTS OF FINANCIAL POSITION  
31 December 2011

	Notes	The Group 2011 GBP'000	The Company 2011 GBP'000	The Group 2010 GBP'000	The Company 2010 GBP'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	11	2	-	27	-
Intangible assets	12	-	-	-	-
Fixed asset investments	13	181	182	181	182
		<u>183</u>	<u>182</u>	<u>208</u>	<u>182</u>
<b>Current assets</b>					
Financial assets at fair value through profit or loss	14	43	43	-	-
Trade and other receivables	15	86	3	206	442
Cash and cash equivalents	16	640	611	539	530
		<u>769</u>	<u>657</u>	<u>745</u>	<u>972</u>
<b>Total assets</b>		<u>952</u>	<u>839</u>	<u>953</u>	<u>1,154</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the Company</b>					
Share capital	17	3,650	3,650	3,311	3,311
Share premium	17	2,719	2,719	1,697	1,697
Share options reserve	18	385	385	396	396
Foreign exchange reserve		(170)	-	(207)	-
Accumulated losses		(5,883)	(6,142)	(4,459)	(4,344)
<b>Total equity</b>		<u>701</u>	<u>612</u>	<u>738</u>	<u>1,060</u>
<b>Non-current liabilities</b>					
Share of loss in joint ventures	19	-	-	95	-
		-	-	95	-
<b>Current liabilities</b>					
Trade and other payables	20	251	227	120	94
		<u>251</u>	<u>227</u>	<u>120</u>	<u>94</u>
<b>Total liabilities</b>		<u>251</u>	<u>227</u>	<u>215</u>	<u>94</u>
<b>Total equity and liabilities</b>		<u>952</u>	<u>839</u>	<u>953</u>	<u>1,154</u>

On 6 June 2012, the Board of Directors of KEFI Minerals plc authorised these consolidated financial statements for issue

Jeffrey Guy Rayner  
Managing Director



Company number: 5976748

**KEFI MINERALS PLC**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**Year ended 31 December 2011**

	Share capital GBP'000	Share premium GBP'000	Share options reserve GBP'000	Foreign exchange reserve GBP'000	Accumulated losses GBP'000	Total GBP'000
<b>At 1 January 2010</b>	2,382	1,413	382	(251)	(3,773)	153
Comprehensive loss for the year	-	-	-	-	(702)	(702)
Other comprehensive income	-	-	-	44	-	44
Recognition of share based payments	-	-	30	-	-	30
Forfeit of options/warrants	-	-	(16)	-	16	-
Issue of share capital	929	375	-	-	-	1,304
Share issue costs	-	(91)	-	-	-	(91)
<b>At 31 December 2010</b>	<b>3,311</b>	<b>1,697</b>	<b>396</b>	<b>(207)</b>	<b>(4,459)</b>	<b>738</b>
Comprehensive loss for the year	-	-	-	-	(1,592)	(1,592)
Other comprehensive income	-	-	-	37	-	37
Recognition of share based payments	-	-	157	-	-	157
Exercise of options/warrants	-	-	(73)	-	73	-
Forfeit of options/warrants	-	-	(95)	-	95	-
Issue of share capital	339	1,113	-	-	-	1,452
Share issue costs	-	(91)	-	-	-	(91)
<b>At 31 December 2011</b>	<b>3,650</b>	<b>2,719</b>	<b>385</b>	<b>(170)</b>	<b>(5,883)</b>	<b>701</b>

The following describes the nature and purpose of each reserve within Group's equity

Reserve	Description and purpose
Share capital	amount subscribed for share capital at nominal value
Share premium	amount subscribed for share capital in excess of nominal value, net of issue expenses
Share options reserve	reserve for share options granted but not exercised or lapsed
Accumulated losses	cumulative net gains and losses recognised in the statement of comprehensive income, excluding foreign exchange gains within other comprehensive income
Foreign exchange reserve consolidation	cumulative foreign exchange net gains and losses recognised on consolidation

**KEFI MINERALS PLC**

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**Year ended 31 December 2011**

	Share capital GBP'000	Share premium GBP'000	Share options reserve GBP'000	Accumulated losses GBP'000	Total GBP'000
<b>At 1 January 2010</b>	2,382	1,413	382	(3,743)	434
Comprehensive loss for the year	-	-	-	(617)	(617)
Recognition of share based payments	-	-	30	-	30
Forfeit of options/warrants	-	-	(16)	16	-
Issue of share capital	929	375	-	-	1,304
Share issue costs	-	(91)	-	-	(91)
<b>At 31 December 2010</b>	<b>3,311</b>	<b>1,697</b>	<b>396</b>	<b>(4,344)</b>	<b>1,060</b>
Comprehensive loss for the year	-	-	-	(1,966)	(1,966)
Recognition of share based payments	-	-	157	-	157
Exercise of options/warrants	-	-	(73)	73	-
Forfeit of options/warrants	-	-	(95)	95	-
Issue of share capital	339	1,113	-	-	1,452
Share issue costs	-	(91)	-	-	(91)
<b>At 31 December 2011</b>	<b>3,650</b>	<b>2,719</b>	<b>385</b>	<b>(6,142)</b>	<b>612</b>

The following describes the nature and purpose of each reserve within owner's equity

Reserve	Description and purpose
Share capital	amount subscribed for share capital at nominal value
Share premium	amount subscribed for share capital in excess of nominal value, net of issue expenses
Share options reserve	reserve for share options granted but not exercised or lapsed
Accumulated losses	cumulative net gains and losses recognised in the statement of comprehensive income

# KEFI MINERALS PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS Year ended 31 December 2011

	Notes	2011 GBP'000	2010 GBP'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Loss before tax</b>		<b>(1,591)</b>	<b>(687)</b>
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	11	3	17
Loss on disposal of property, plant and equipment		14	-
Profit on disposal of subsidiary	13	(12)	-
Gain on exchange of shares	14	(50)	-
Net loss financial assets at fair value through profit or loss	14	7	-
Negative goodwill		-	(314)
Share-based payments	18	101	16
Issue of warrants	18	56	14
Share of loss from jointly controlled entity	19	154	230
Write off of loans received		(67)	-
Exchange differences on borrowings		44	-
Exchange difference		13	(26)
		<u>(1,328)</u>	<u>(750)</u>
<b>Changes in working capital:</b>			
Trade and other receivables		120	4
Trade and other payables		16	(13)
		<u>136</u>	<u>(9)</u>
<b>Net cash used in operating activities</b>		<u><b>(1,192)</b></u>	<u><b>(759)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for purchase of property, plant and equipment	11	-	(1)
Acquisition of jointly controlled entity	13	-	(181)
Proceeds from sale of subsidiary	13	61	-
Share of cash from jointly controlled entity		(95)	(55)
Advances to joint venture		(160)	-
Proceeds from sale of property, plant and equipment		11	-
<b>Net cash used in investing activities</b>		<u><b>(183)</b></u>	<u><b>(237)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital	17	1,452	1,304
Listing and issue costs	17	(91)	(91)
Loan from related party		115	-
<b>Net cash from financing activities</b>		<u><b>1,476</b></u>	<u><b>1,213</b></u>
<b>Net increase in cash and cash equivalents</b>		<b>101</b>	<b>217</b>
<b>Cash and cash equivalents:</b>			
At beginning of the year	16	<u>539</u>	<u>322</u>
At end of the year	16	<u><b>640</b></u>	<u><b>539</b></u>

**KEFI MINERALS PLC**

**COMPANY STATEMENT OF CASH FLOWS**  
**Year ended 31 December 2011**

	Notes	2011 GBP'000	2010 GBP'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(1,966)	(617)
<b>Adjustments for:</b>			
Impairment of intercompany balances		-	142
Gain on exchange of shares	14	(50)	-
Net loss on financial assets at fair value through profit or loss	14	7	-
Share-based payments	18	101	16
Issue of warrants	18	56	14
Subsidiary balances write-off		206	-
Joint-venture balances write-off		599	-
Centerra advances write-back		(251)	-
Exchange differences on borrowings		52	-
Exchange difference		(6)	-
		<u>(1,252)</u>	<u>(445)</u>
<b>Changes in working capital:</b>			
Trade and other payables		18	2
		<u>18</u>	<u>2</u>
<b>Net cash used in operating activities</b>		<u>(1,234)</u>	<u>(443)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of jointly controlled entity	13	-	(181)
Advances to joint-venture		(160)	(378)
Loan to subsidiary		(1)	-
<b>Net cash used in investing activities</b>		<u>(161)</u>	<u>(559)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital	17	1,452	1,304
Listing and issue costs	17	(91)	(91)
Loan from related party		115	-
<b>Net cash from financing activities</b>		<u>1,476</u>	<u>1,213</u>
<b>Net increase in cash and cash equivalents</b>		<b>81</b>	<b>211</b>
<b>Cash and cash equivalents:</b>			
At beginning of the year	16	530	319
At end of the year	16	<u>611</u>	<u>530</u>

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 1. Incorporation and principal activities

##### Country of incorporation

KEFI Minerals Plc (the "Company") was incorporated in United Kingdom as a public limited company on 24 October 2006. Its registered office is at 27/28, Eastcastle Street, London W1W 8DH.

##### Principal activities

The principal activities of the Group for the year were

- To explore for mineral deposits of precious and base metals and other minerals that appear capable of commercial exploitation, including topographical, geological, geochemical and geophysical studies and exploratory drilling
- To evaluate mineral deposits determining the technical feasibility and commercial viability of development, including the determination of the volume and grade of the deposit, examination of extraction methods, infrastructure requirements and market and finance studies
- To develop, operate mineral deposits and market the metals produced

#### 2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the period presented in these financial statements unless otherwise stated.

##### Basis of preparation and consolidation

The company and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. They comprise the accounts of KEFI Minerals Plc and all its subsidiaries made up to 31 December 2011. The company and the consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

##### Going concern

The Directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future.

The financial information has been prepared on the going concern basis, the validity of which depends principally on the discovery of economically viable mineral deposits and the availability of subsequent funding to extract the resource or alternatively the availability of funding to extend the Company's and Group's exploration activities. The financial information does not include any adjustments that would arise from a failure to complete either option.

##### Functional and presentational currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is British Pounds (GBP). The financial statements are presented in British Pounds (GBP).

##### Foreign currency translation

###### (1) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the statement of comprehensive income.

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year ended 31 December 2011

#### 2. Accounting policies (continued)

##### Foreign currency translation (continued)

###### (2) Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's foreign operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognized in the foreign currency translation reserve and as a component of other comprehensive income, and recognized in profit or loss on disposal of the foreign operation.

###### Revenue recognition

The Group had no sales/revenue during the period under review.

###### Property plant and equipment

Property plant and equipment are stated at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition less depreciation.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life. The annual depreciation rates used are as follows:

Furniture, fixtures and office equipment	10%
Motor Vehicles	20%

###### Acquisitions and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell. Where the group acquires a subsidiary for less than the fair value of its assets and liabilities, this results in negative goodwill which is recognized in profit and loss.

Purchased goodwill is capitalized and classified as an asset on the statement of financial position. Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Goodwill is reviewed for impairment on an annual basis. When the directors consider the initial value of the acquisition to be negligible, the goodwill is written off to the statement of comprehensive income immediately. Trading results of acquired subsidiary undertakings are included from the date of acquisition.

Goodwill is deemed to be impaired when the present value of the future cash flows expected to be derived is lower than the carrying value. Any impairment is charged to the statement of comprehensive income immediately.

###### Interest in joint ventures

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has joint control are referred to as jointly controlled entities. The results and assets and liabilities of joint ventures are included in these financial statements for the period using the equity method of accounting.

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 2 Accounting policies (continued)

##### Finance costs

Interest expense and other borrowing costs are charged to the statement of comprehensive income as incurred

##### Tax

The tax payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable differences and deferred tax assets are recognized to the extent that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

##### Investments

Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognized as an expense in the period in which the impairment is identified.

##### Exploration costs

The Group has adopted the provisions of IFRS 6 "Exploration for and Evaluation of Mineral Resources"

Exploration, evaluation and development expenditure, including acquisition costs of licences, in respect of each identifiable area of interest is expensed to the statement of comprehensive income as incurred. Once mining activities commence, development expenditure will be capitalised as incurred and amortised over the estimated useful life of the area according to the rate of depletion of the economically recoverable reserves or over the estimated useful life of the mine, if shorter. A regular review will be undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated capitalised costs in relation to an abandoned area of interest will be written off in full against profit in the year in which the decision to abandon the area is made.

##### Share-based compensation benefits

IFRS 2 "Share-based Payment" requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each statement of financial position date. The total amount expensed is recognized over the vesting period, which is the period over which performance conditions are to be satisfied.

The fair value is measured using the Black Scholes pricing model. The inputs used in the model are based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 2. Accounting policies (continued)

##### **Use and revision of accounting estimates and judgements**

The preparation of the financial report requires the making of estimations and assumptions that affect the recognized amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. There were no significant accounting estimates being made. Significant judgments include

##### Going concern

The going concern presumption depends principally on the discovery of economically viable mineral deposits and the availability of subsequent funding to extract the resource or alternatively the availability of funding to extend the Company's and Group's exploration activities.

##### Exploration activities

The Group regularly monitors development costs to ensure compliance with IFRS 6. As at the date of approval of these financial statements the Group's stage of operations have not yet met the criteria for capitalization of exploration costs.

##### Impairment review of asset carrying values

Events or changes in circumstances can give rise to significant impairment charges or reversals of impairment in a particular year.

Where the recoverable amounts of Group cash generating units are assessed by analyses of discounted cash flows, the resulting valuations are particularly sensitive to changes in estimates of long term commodity prices, exchange rates, operating costs, the grouping of assets within cash-generating units and discount rates.

#### **Financial instruments**

##### Financial assets

Loans and receivables are recognized when the Group becomes party to the contractual provisions of the financial instrument.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

##### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are initially measured at fair value, which generally equates to acquisition cost. Subsequent to initial recognition, if a financial asset is held for trading, or is designated as such on initial recognition, it is classified as held at fair value through profit or loss. Assets other than held for trading are designated at fair value through profit and loss when the Group manages the holdings and makes purchase and sale decisions based on fair value assessments and documented risk management and investment strategies. Attributable transaction costs and changes in fair value are recognised in profit or loss.

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 2 Accounting policies (continued)

##### Financial instruments (continued)

###### Financial liabilities - equity

Financial liabilities are recognized when the Group becomes party to the loan. Financial liabilities represent trade payables and are initially measured at fair value and subsequently at amortized cost.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

###### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand with an original maturity date of less than three months.

#### 3. Financial risk management

##### Financial risk factors

The Group is exposed to market risk (interest rate risk and currency risk), liquidity risk and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Group to manage these risks are discussed below.

##### Market risk - Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

At the reporting date the interest rate profile of interest-bearing financial instruments was

	2011 GBP'000	2010 GBP'000
<u>Variable rate instruments</u>		
Financial assets	<u>683</u>	<u>539</u>

##### Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. For a decrease of 100 basis points there would be an equal and opposite impact on the profit and other equity.

	Equity 2011 GBP'000	Profit or Loss 2011 GBP'000	Equity 2010 GBP'000	Profit or Loss 2010 GBP'000
<u>Variable rate instruments</u>				
Financial assets	<u>7</u>	<u>7</u>	<u>5</u>	<u>5</u>

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 3 Financial risk management (continued)

##### Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency.

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro, Turkish Lira and US Dollar. The Group's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities 2011 GBP'000	Assets 2011 GBP'000	Liabilities 2010 GBP'000	Assets 2010 GBP'000
Euro	17	3	18	4
New Turkish Lira	26	127	7	197
American Dollar	-	-	95	-

##### Sensitivity analysis

A 10% strengthening of the British Pound against the following currencies at 31 December 2011 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the British Pound against the relevant currency, there would be an equal and opposite impact on the loss and equity.

	Equity 2011 GBP'000	Profit or Loss 2011 GBP'000	Equity 2010 GBP'000	Profit or Loss 2010 GBP'000
Euro	1	1	1	1
Turkish Lira	(10)	(10)	(19)	(19)
American Dollar	-	-	10	10

##### Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 3 Financial risk management (continued)

##### Liquidity risk (continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Carrying amounts GBP'000	Contractual cash flows GBP'000	3 months or less GBP'000	3 – 12 months GBP'000	1 – 2 years GBP'000	2 – 5 years GBP'000	More than 5 years GBP'000
<b>31 December 2011</b>							
Trade and other payables	251	251	251	-	-	-	-
	<b>251</b>	<b>251</b>	<b>251</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>31 December 2010</b>							
Trade and other payables	120	120	120	-	-	-	-
Share of loss in joint ventures	95	-	-	-	-	-	-
	<b>215</b>	<b>120</b>	<b>120</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

##### Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents of GBP640,000 (2010: GBP539,000) and equity attributable to equity holders of the parent, comprising issued capital of GBP3,650,000 (2010: GBP3,311,000), reserves of GBP2,934,000 (2010: GBP1,886,000) and accumulated losses of GBP5,883,000 (2010: GBP4,459,000). The Group does not use derivative financial instruments and has no long term debt facilities.

##### Fair value estimation

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the reporting date.

	Carrying Amounts		Fair Values	
	2011 GBP'000	2010 GBP'000	2011 GBP'000	2010 GBP'000
<b>Financial assets</b>				
Cash and cash equivalents (Note 16)	640	539	640	539
Financial assets designated at fair value through profit and loss (Note 14)	43	-	43	-
Trade and other receivables (Note 15)	86	206	86	206
<b>Financial liabilities</b>				
<b>Amortised cost</b>				
Share of loss in joint ventures (Note 19)	-	95	-	95
Trade Payables (Note 20)	251	120	251	120

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 3. Financial risk management (continued)

##### Fair value estimation (continued)

Financial assets designated at fair value through profit and loss are classified as Level 1 within the fair value hierarchy, based on prices quoted (unadjusted) in active markets for identical assets or liabilities

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods, such as estimated discounted cash flows, and makes assumptions that are based on market conditions existing at the statement of financial position date.

The nominal value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

#### 4. Other Income

	2011 GBP'000	2010 GBP'000
Expenses recharged to jointly controlled entities (Note 19.3)	67	153
	<u>67</u>	<u>153</u>

#### 5. Expenses by nature

	2011 GBP'000	2010 GBP'000
Exploration costs	426	247
Staff costs (Note 6)	133	211
Depreciation of property, plant and equipment (Note 11)	3	17
Issue costs of warrants (Note 18)	56	14
Share-based employee benefits (Note 18)	101	16
Share of losses from jointly controlled entity (Note 19)	154	230
Directors' emoluments (Note 21.1)	196	176
Consultants' costs	83	-
Travelling expenses	65	27
Auditors' remuneration - audit	25	24
- other	15	10
Other expenses	388	125
	<u>1,645</u>	<u>1,097</u>
Other income (Note 4)	(67)	(153)
Negative goodwill (Note 13)	-	(314)
Operating loss	<u>1,578</u>	<u>630</u>

The Group's stage of operations as at the year end and as at the date of approval of these financial statements have not yet met the criteria for capitalization of exploration costs.

#### 6 Staff costs

	2011 GBP'000	2010 GBP'000
Salaries	118	178
Social insurance costs and other funds	15	33
	<u>133</u>	<u>211</u>
Average number of employees	<u>4</u>	<u>8</u>

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 7. Finance costs

	2011 GBP'000	2010 GBP'000
Sundry finance costs	-	4
	<u>-</u>	<u>4</u>

#### 8 Operating segments

The Group has only one distinct operating segment, being that of mineral exploration. The Group's exploration activities are located in Turkey and Bulgaria and its administration and management is based in Cyprus.

	Cyprus GBP'000	Turkey GBP'000	Bulgaria GBP'000	Total GBP'000
<b>2011</b>				
Operating loss	(1,330)	(91)	(3)	(1,424)
Foreign exchange profit/(loss)	6	(22)	3	(13)
	<u>(1,324)</u>	<u>(113)</u>	<u>-</u>	<u>(1,437)</u>
Share of loss from jointly controlled entity				(154)
Loss before tax				(1,591)
Tax				(1)
Loss for the year				<u>(1,592)</u>
Total assets	790	157	5	952
Total liabilities	209	25	17	251
Depreciation of property, plant and equipment	-	3	-	3
	<u>-</u>	<u>3</u>	<u>-</u>	<u>3</u>
	Cyprus GBP'000	Turkey GBP'000	Bulgaria GBP'000	Total GBP'000
<b>2010</b>				
Operating loss	(462)	(245)	(7)	(714)
Financial costs	(2)	(2)	-	(4)
Foreign exchange loss	(12)	(27)	(14)	(53)
	<u>(476)</u>	<u>(274)</u>	<u>(21)</u>	<u>(771)</u>
Share of loss from jointly controlled entity				(230)
Negative goodwill				314
Loss before tax				(687)
Tax				(15)
Loss for the year				<u>(702)</u>
Total assets	746	205	2	953
Total liabilities	94	102	19	215
Depreciation of property, plant and equipment	-	17	-	17
	<u>-</u>	<u>17</u>	<u>-</u>	<u>17</u>

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

9. Tax	2011 GBP'000	2010 GBP'000
Loss before tax	(1,591)	(687)
Tax calculated at the applicable tax rates	(194)	(119)
Tax effect of expenses not deductible for tax purposes	102	73
Tax effect of tax loss for the year	93	40
Tax effect of allowances and income not subject to tax	(28)	(54)
Tax effect on exploration expenses taxed separately	27	60
Defence tax	1	-
Tax prior years	-	15
Charge for the year	1	15

The company is resident in Cyprus for tax purposes

A deferred tax asset of GBP598,232 (2010 GBP505,636) has not been accounted for due to the uncertainty against future recoverability.

#### Cyprus

The corporation tax rate is 10%. Under certain conditions interest may be subject to defence contribution at the rate of 15% (10% to 30 August 2011). In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (in 2011 the rate was 15% up to 30 August 2011 and 17% thereafter).

Due to tax losses sustained in the period, no tax liability arises on the Company. Under current legislation, tax losses may be carried forward and be set off against taxable income of the following years. As at 31 December 2011, the balance of tax losses which is available for offset against future taxable profits amounts to GBP3,036,815 (2010 GBP2,107,254).

#### Bulgaria

Mediterranean Minerals (Bulgaria) EOOD, the 100% subsidiary of the Company, is resident in Bulgaria for tax purposes.

The corporation tax rate is 10%. Due to tax losses sustained in the period, no tax liability arises on the Mediterranean Minerals (Bulgaria) EOOD. Under current legislation, tax losses may be carried forward and be set off against taxable income of the following five years. As at 31 December 2011, the balance of tax losses which is available for offset against future taxable profits amounts to GBP186,996 (2009 GBP187,155).

#### Turkey

Doğu Akdeniz Mineralleri Sanayi ve Ticaret Limited Şirket (Doğu Akdeniz Mineralleri), the 100% subsidiary of Mediterranean Minerals (Bulgaria) EOOD, and ultimately 100% subsidiary of the Company, is resident in Turkey for tax purposes.

The corporation tax rate is 20%. Under local tax legislation, exploration costs can only be set off against income from mining operations. As at 31 December 2011, the balance of exploration costs that is available for offset against future income from mining operations amount to GBP1,845,087 (2010 GBP1,731,749).

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 10. Loss per share

The calculation of the basic and fully diluted loss per share attributable to the ordinary equity holders of the parent is based on the following data

	2011 GBP'000	2010 GBP'000
Net loss attributable to equity shareholders	<u>(1,592)</u>	<u>(702)</u>
	'000	'000
Average number of ordinary shares for the purposes of basic loss per share	<u>361,851</u>	<u>293,023</u>
<b>Loss per share*</b>	<b>Pence</b>	<b>Pence</b>
Basic and fully diluted loss per share	<u>0.44</u>	<u>0.24</u>

The effect of share options and warrants on losses per share is anti-dilutive

#### 11 Property, plant and equipment

	Motor vehicles GBP'000	Furniture, fixtures and office equipment GBP'000	Total GBP'000
<b>The Group</b>			
<b>Cost</b>			
At 1 January 2010	59	28	87
Additions	-	1	1
Exchange difference on translation of subsidiaries	13	(8)	5
<b>At 31 December 2010 / 1 January 2011</b>	<u>72</u>	<u>21</u>	<u>93</u>
Additions			
Disposals	(24)	-	(24)
Exchange difference on translation of subsidiaries	(17)	(8)	(25)
<b>At 31 December 2011</b>	<u>31</u>	<u>13</u>	<u>44</u>
<b>Accumulated Depreciation</b>			
At 1 January 2010	36	9	45
Charge for the year	14	3	17
Exchange difference on translation of subsidiaries	6	(2)	4
<b>At 31 December 2010 / 1 January 2011</b>	<u>56</u>	<u>10</u>	<u>66</u>
Charge for the year	2	1	3
Disposals	(24)	-	(24)
Exchange difference on translation of subsidiaries	(3)	-	(3)
<b>At 31 December 2011</b>	<u>31</u>	<u>11</u>	<u>42</u>
<b>Net Book Value at 31 December 2011</b>	<u>-</u>	<u>2</u>	<u>2</u>
Net Book Value at 31 December 2010	<u>16</u>	<u>11</u>	<u>27</u>

The above property, plant and equipment are located in Turkey and Saudi Arabia

The Company has no property, plant and equipment

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 12 Intangible assets

	Goodwill GBP'000	Total GBP'000
<b>Cost</b>		
At 1 January 2010, 31 December 2010 and 31 December 2011	364	364
<b>Impairment</b>		
At 1 January 2010, 31 December 2010 and 31 December 2011	(364)	(364)
<b>Net Book Value</b>		
At 1 January 2010, 31 December 2010 and 31 December 2011	<u>-</u>	<u>-</u>

The goodwill arose on the acquisition of Mediterranean Minerals (Bulgaria) EOOD in 2006 and was impaired in the year of acquisition of the company

#### 13. Fixed asset investments

	2011 GBP'000	2010 GBP'000
<b>The Group</b>		
<b>Cost and Net Book Value</b>		
At 1 January	181	2
Additions	-	181
Disposal through business combination	-	(2)
At 31 December	<u>181</u>	<u>181</u>
<b>The Company</b>		
<b>Cost</b>		
At 1 January	902	2
Additions	-	900
Disposals	(720)	-
At 31 December	<u>182</u>	<u>902</u>
<b>Provision for impairment</b>		
At 1 January	720	-
Provision	-	720
Reversal of impairment	(720)	-
At 31 December	<u>-</u>	<u>720</u>
<b>Net Book Value</b>	<u>182</u>	<u>182</u>

Subsidiary companies	Date of acquisition/ incorporation	Country of incorporation	Effective proportion of shares held
Mediterranean Minerals (Bulgaria) EOOD	08/11/2006	Bulgaria	100%-Direct
Doğu Akdeniz Mineralleri Sanayi ve Ticaret Limited Şirket	08/11/2006	Turkey	100%-Indirect
<b>Joint venture (Note 19.2)</b>			
Gold and Minerals Co Limited	04/08/2010	Saudi Arabia	40%-Direct

On 8 November 2006, the Company entered into an agreement to acquire from EMED Mining Public Limited the whole of the issued share capital of Mediterranean Minerals (Bulgaria) EOOD, a company incorporated in Bulgaria, in consideration for the issue of 29,999,998 ordinary shares in the Company

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 13. Fixed asset investments (continued)

Mediterranean Minerals (Bulgaria) EOOD owns 100% of the share capital of Doğu Akdeniz Mineralleri, a private limited liability company incorporated in Turkey, engaging in activities for exploration and developing of natural resources.

On 15 July 2010 Centerra Gold (KB) Inc withdrew from the Artvin Joint Venture, Kackar Madencilik Sanayi ve Ticaret Limited Şirket ("Kackar") Under the terms of the joint venture, the withdrawal resulted in Kackar becoming a subsidiary (Note 19.1). The joint venture agreement provided that were Centerra Gold to withdraw, any amounts due to them would be settled for a nominal amount, with the debt being acquired by the Company for US\$1. As a result of Kackar becoming a subsidiary, a gain arose in two components. The amount previously accounted for under the equity method was fair valued as at 15 July 2010, resulting in a gain of GBP216,000, being the Group's share of the settlement of the debt due to Centerra. The second component is the gain arising on the bargain purchase as detailed below.

Recognised amounts of identifiable assets acquired and liabilities assumed at fair value during the year ended 31 December 2010

	<b>GBP'000</b>
Trade and other receivables	146
Total current assets	<u>146</u>
Trade and other payables	(6)
Total current liabilities	<u>(6)</u>
Total Net identifiable assets and liabilities	<u>140</u>
Consideration	-
Fair value of interest at date of acquisition	<u>42</u>
Bargain purchase	<u>98</u>
	<b>GBP'000</b>
Gain on elimination of debt	216
Bargain purchase	<u>98</u>
Total amount recognised on acquisition in income statement	<u>314</u>

In July 2011, KEFI Minerals, completed the sale the Company's Artvin Project in northeastern Turkey to a Turkish mining company. The Artvin Project comprised 15 Exploration Licences (totalling 254km<sup>2</sup>) located in the Eastern Pontide Belt in northeastern Turkey. Kackar Madencilik San Tic Ltd, KEFI Mineral's subsidiary holding these licences, was sold in return for a cash payment of US\$100,000 (GBP 61,957) and a 1% Net Smelter Royalty on all future mineral production from the Artvin licences. This transaction has resulted in the recognition of a gain on disposal in the statement of comprehensive income, as follows.

	<b>GBP'000</b>
Sale proceeds	61
Less Net assets disposed	
Trade and other receivables	(69)
Trade and other payables	<u>20</u>
Gain on disposal of subsidiary	<u>12</u>

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 14. Financial assets at fair value through profit or loss

	2011 GBP'000	2010 GBP'000
<b>The Group and the Company</b>		
On 1 January	-	-
Additions	50	-
Net loss on transfer to the statement of comprehensive income	(7)	-
On 31 December	<u>43</u>	<u>-</u>

The Company successfully divested four Licences in July 2011 to AIM listed Ariana Resources (AIM AAU) for a nominal cash payment of 10,000 Turkish Lira, 910,747 new ordinary shares in Ariana as consideration for the acquisition of relevant mineral exploration data and drill core samples and a Net Smelter Royalty ("NSR") of 2%. The NSR is payable by Ariana's wholly owned Turkish subsidiary Galata Madencilik San ve Tic. Ltd ("Galata") to KEFI Mineral's Turkish Subsidiary, Dogu Akdeniz Mineralleri San ve Tic Ltd ("Dogu") on commercial production of any mineral from the licences. No value has been attributed in these financial statements for the NSRs.

#### 15 Trade and other receivables

	2011 GBP'000	2010 GBP'000
<b>The Group</b>		
Trade receivables	3	3
Amount receivable from Saudi Arabia Joint Venture	39	32
Other receivables	-	136
Deposits and prepayments	44	35
	<u>86</u>	<u>206</u>
	2011 GBP'000	2010 GBP'000
<b>The Company</b>		
Trade receivables	3	3
Amount receivable from Saudi Arabia Joint Venture	-	439
	<u>3</u>	<u>442</u>

Amounts owed by group companies totaled GBP206,000 (2010 GBP142,000). Balances have been fully provided for due to the uncertainty over the timing of future recoverability.

#### 16 Cash and cash equivalents

	2011 GBP'000	2010 GBP'000
<b>The Group</b>		
Cash at bank and in hand (Note 3)	<u>640</u>	<u>539</u>
<b>The Company</b>		
Cash at bank and in hand	<u>611</u>	<u>530</u>

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

17 Share capital	Number of shares '000	Share Capital GBP'000	Share premium GBP'000	Total GBP'000
<b>Authorised</b>				
Ordinary shares of £0.01 each	400,000	4,000	-	4,000
<b>Issued and fully paid</b>				
At 1 January 2010	238,167	2,382	1,413	3,795
Issued 13 January 2010 at GBP0.016	32,188	322	193	515
Issued 22 January 2010 at GBP0.016	9,375	93	56	149
Issued 16 July 2010 at GBP0.0125	400	4	1	5
Issued 28 July 2010 at GBP0.01	1,187	10	-	10
Issued 19 October 2010 at GBP0.0125	50,000	500	125	625
Share issue costs	-	-	(91)	(91)
<b>At 31 December 2010 / 1 January 2011</b>	<b>331,317</b>	<b>3,311</b>	<b>1,697</b>	<b>5,008</b>
Issued 4 January 2011 at GBP0.0125	1,670	16	4	20
Issued 28 January 2011 at GBP0.0314	1,150	12	25	37
Issued 21 February 2011 at GBP0.05	26,000	260	1,040	1,300
Issued 5 March 2011 at GBP0.0288	1,296	13	24	37
Issued 5 March 2011 at GBP0.0125	1,800	18	5	23
Issued 5 March 2011 at GBP0.016	684	7	4	11
Issued 6 April 2011 at GBP0.016	563	6	3	9
Issued 20 June 2011 at GBP0.0122	500	5	1	6
Issued 7 November 2011 at GBP0.0472	200	2	7	9
Share issue costs	-	-	(91)	(91)
<b>At 31 December 2011</b>	<b>365,180</b>	<b>3,650</b>	<b>2,719</b>	<b>6,369</b>

#### Issued capital

##### 2011

On 4 January 2011, 1,670,000 shares of GBP 0.01 were issued at a price of GBP 0.0125. Upon the issue, an amount of GBP 4,000 was credited to the company's share premium reserve

On 28 January 2011, 1,150,000 shares of GBP 0.01 were issued at a price of GBP 0.0314. Upon the issue, an amount of GBP 25,000 was credited to the company's share premium reserve

On 21 February 2011, 26,000,000 shares of GBP 0.01 were issued at a price of GBP 0.05. Upon the issue, an amount of GBP 1,040,000 was credited to the company's share premium reserve

On 5 March 2011, 1,296,456 shares of GBP 0.01 were issued at a price of GBP 0.0288. Upon the issue, an amount of GBP 24,000 was credited to the company's share premium reserve. On the same day, 1,800,000 shares of GBP 0.01 were issued at a price of GBP 0.0125. Upon the issue, an amount of GBP 5,000 was credited to the company's share premium reserve. Similarly on the same day, 684,375 shares of GBP 0.01 were issued at a price of GBP 0.016. Upon the issue, an amount of GBP 4,000 was credited to the company's share premium reserve

On 6 April 2011, 562,500 shares of GBP 0.01 were issued at a price of GBP 0.016. Upon the issue, an amount of GBP 3,000 was credited to the company's share premium reserve

On 20 June 2011, 500,000 shares of GBP 0.01 were issued at a price of GBP 0.0122. Upon the issue, an amount of GBP 1,000 was credited to the company's share premium reserve

On 7 November 2011, 200,000 shares of GBP 0.01 were issued at a price of GBP 0.0472. Upon the issue, an amount of GBP 7,000 was credited to the company's share premium reserve

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 17. Share capital (continued)

##### 2010

On 13 January 2010, 32,187,500 shares of GBP 0.01 were issued at a price of GBP 0.016. Upon the issue, an amount of GBP 193,125 was credited to the company's share premium reserve.

On 22 January 2010, 9,375,000 shares of GBP 0.01 were issued at a price of GBP 0.016. Upon the issue, an amount of GBP 56,250 was credited to the company's share premium reserve.

On 16 July 2010, 400,000 shares of GBP 0.01 were issued at a price of GBP 0.0125. Upon the issue, an amount of GBP 1,000 was credited to the company's share premium reserve.

On 28 July 2010, 1,187,099 shares of GBP 0.01 were issued at a price of GBP 0.01.

On 19 October 2010, 50,000,000 shares of GBP 0.01 were issued at a price of GBP 0.0125. Upon the issue, an amount of GBP 125,000 was credited to the company's share premium reserve.

#### Warrants

##### 2011

On 22 February 2011, the Company issued 780,000 warrants to subscribe for new ordinary shares of GBP 0.01 each at GBP 0.05 per share.

##### 2010

On 8 January 2010, the Company issued 965,625 warrants to subscribe for new ordinary shares of GBP 0.01 each at GBP 0.016 per share.

On 21 January 2010, the Company issued 281,250 warrants to subscribe for new ordinary shares of GBP 0.01 each at GBP 0.016 per share.

On 8 October 2010, the Company issued 2,500,000 warrants to subscribe for new ordinary shares of GBP 0.01 each at GBP 0.0125 per share.

Details of warrants outstanding as at 31 December 2011

Grant date	Expiry date	Exercise price GBP	Number of warrants 000's
8 October 2010	19 October 2013	0.0125	830
22 February 2011	21 February 2016	0.05	780
			<u>1,610</u>

The Company has issued warrants to advisers to the Group. All warrants, except those noted below, expire five years after grant date and are exercisable at the exercise price.

	Number of warrants 000's
Outstanding warrants at 1 January 2011	6,843
- granted	780
- exercised	(6,013)
- forfeited	-
Outstanding warrants at 31 December 2011	<u>1,610</u>

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 17. Share capital (continued)

##### Warrants (continued)

The estimated fair values of the warrants were calculated using the Black Scholes option pricing model

The inputs into the model and the results are as follows

	22 Feb 11	8 Oct 10
Closing share price at issue date	7 5p	2 04p
Exercise price	5p	1 25p
Expected volatility	162%	167 5%
Expected life	5yrs	3yrs
Risk free rate	4 75%	2 25%
Expected dividend yield	Nil	Nil
Discount factor	0%	50%
Estimated fair value	7 12p	0 54p

Expected volatility was estimated based on the likely range of volatility of the share price.

For 2011, the impact of issuing warrants is a net charge to income of GBP56,000 (2010 GBP17,000) At 31 December 2011, the equity reserve recognized for share based payments, including warrants, amounted to GBP385,000 (2010 GBP396 000)

#### 18. Share options reserve

	2011 GBP'000	2010 GBP'000
Opening amount	396	382
Recognition of share based payments – options and warrants (Note 5)	157	30
Exercise/cancellation/forfeiture of options and warrants	(168)	(16)
Closing amount	<u>385</u>	<u>396</u>

Details of share options outstanding as at 31 December 2011

Grant date	Expiry date	Exercise price GBP	Number of shares 000's
18 December 2006	18 December 2012	0 0300	14,500
12 March 2007	11 March 2013	0 0350	250
24 June 2008	23 June 2014	0 0325	50
12 June 2009	11 June 2014	0 0240	8,385
01 July 2010	30 June 2015	0 0071	100
28 February 2011	27 February 2016	0 0071	550
14 July 2011	13 July 2016	0 0052	500
29 September 2011	28 September 2016	0 0378	2,000
			<u>26,335</u>

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 18 Share options reserve (continued)

	Number of shares 000's
Outstanding options at 31 December 2010	27,550
- granted	4,050
- exercised	(1,650)
- cancelled/forfeited	(3,615)
Outstanding options at 31 December 2011	<u>26,335</u>

The Company has issued share options to directors, employees and advisers to the Group. All options, except those noted below, expire six years after grant date and are exercisable at the exercise price in whole or in part no more than one third from the grant date, two thirds after two years from the grant date and the balance after three years from the grant date.

On 12 June 2009, 9,000,000 options were issued which expire five years after the grant date, and are exercisable at any time within that period.

On 1 July 2010, 100,000 options were issued which expire five years after the grant date, and are exercisable at any time within that period.

On 28 February 2011, 550,000 options were issued which expire five years after the grant date, and are exercisable at any time within that period.

On 14 July 2011, 500,000 options were issued which expire five years after the grant date, and are exercisable at the exercise price in whole or in part no more than one half after one year from the grant date and one half two years from the grant date.

On 29 September 2011, 2,000,000 options were issued which expire five years after the grant date, and are exercisable at the exercise price in whole or in part no more than one half after one year from the grant date and one half two years from the grant date.

The option agreements contain provisions adjusting the exercise price in certain circumstances including the allotment of fully paid ordinary shares by way of a capitalisation of the Company's reserves, a sub division or consolidation of the ordinary shares, a reduction of share capital and offers or invitations (whether by way of rights issue or otherwise) to the holders of ordinary shares.

The estimated fair values of the options were calculated using the Black Scholes option pricing model. The inputs into the model and the results are as follows:

	29 Sep 2011	14 Jul. 2011	28 Feb 2011	1 Jul. 2010	12 Jun 2009	24 Jun 2008	12 Mar. 2007
Closing share price at issue date	3.78p	5.15p	6.4p	0.73p	2.00p	3.25p	3.30p
Exercise price	3.78p	5.15p	6.4p	0.713p	2.40p	3.25p	3.50p
Expected volatility	105.51%	133.46%	162.0%	167.5%	238.5%	147.6%	68.06%
Expected life	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs	6 yrs	6 yrs
Risk free rate	5.00%	5.00%	5.00%	2.25%	5.00%	5.00%	5.73%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Discount factor	0%	0%	0%	50%	55%	30%	30%
Estimated fair value	2.99p	4.54p	5.98p	0.649p	0.89p	2.13p	1.50p

Expected volatility was estimated based on the likely range of volatility of the share price.

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 18 Share options reserve (continued)

For 2010, the impact of share-based payments is a net charge to income of GBP101,000 (2010 GBP14,000). At 31 December 2010, the equity reserve recognized for share based payments, including warrants, amounted to GBP385,000 (2010 GBP396,000).

#### 19 Joint venture agreements

##### 19.1 Joint Venture with Centerra Gold (KB) Inc

On 22 October 2008, the company entered into a Joint Venture Agreement ("Joint Venture Agreement") in respect of its 100%-owned Artvin Project with Centerra Gold (KB) Inc ("Centerra"), a wholly-owned subsidiary of Centerra Gold Inc, a Canadian-based gold mining and exploration company which is listed on the Toronto Stock Exchange.

Under the terms of the Joint Venture Agreement, the licences relating to the Project Area were transferred to the new KEFI group subsidiary Kackar Madencilik Sanayi ve Ticaret Limited Sirketi ("Kackar"), which was incorporated in Turkey on 15 January 2009 and Centerra had the exclusive right to acquire up to a 70% shareholding in this subsidiary in two stages. In order to acquire the initial 50% shareholding in Kackar, Centerra was required to spend US\$3.0 million over three years with a minimum expenditure of US\$0.5 million in the first year. Centerra could then elect to acquire an additional 20% shareholding through the expenditure of a further US\$3.0 million over the next two years. The joint venture included a one-kilometer area of interest which extends from the outer boundary of the Project Area.

On 15 July 2010, Centerra Gold (KB) Inc advised the Company of its intention to withdraw from the Artvin Joint Venture. The cumulative advances made by Centerra Gold (KB) Inc until the 15 July 2010 amounted to GBP0.7 million. Under the terms of the agreement no amounts are due to Centerra Gold (KB) Inc following their withdrawal from the project.

Kackar was treated as a jointly controlled entity, until 15 July 2010, using the equity accounting method. From 15 July 2010 Kackar was treated as a wholly owned subsidiary. For 2010 share of loss amounting to GBP22,757 was recognized.

In August 2011, KEFI Minerals, completed the sale the Company's Artvin Project in northeastern Turkey to a Turkish mining company. The Artvin Project comprised 15 Exploration Licences (totaling 254km<sup>2</sup>) located in the Eastern Pontide Belt in northeastern Turkey. Kackar Madencilik San. Tic. Ltd, KEFI Mineral's subsidiary holding these licences, was sold in return for a cash payment of US\$100,000 and a 1% Net Smelter Royalty on all future mineral production from the Artvin licences.

##### 19.2 Joint Venture with Gold and Minerals

In May 2009, KEFI Minerals announced the formation of a new minerals exploration joint venture, Gold & Minerals ("G&M") Joint Venture, with leading Saudi construction and investment group Abdul Rahman Saad Al-Rashid & Sons Company Limited ("ARTAR"). KEFI Minerals is the operating partner with a 40% shareholding of the G&M Joint Venture with ARTAR holding the other 60%.

KEFI Minerals provides the G&M Joint Venture with technical advice and assistance, including personnel to manage and supervise all exploration and technical studies. ARTAR provides administrative advice and assistance to ensure that the G&M Joint Venture remains in compliance with all governmental and other procedures.

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 19. Joint venture agreements (continued)

##### 19.2 Joint Venture with Gold and Minerals (continued)

The cumulative expenditure incurred by the company KEFI Minerals until 31 December 2011 amounted to GBP 598,792 (2010 GBP 438,732)

The G&M Joint Venture is treated as a joint venture and has been equity accounted. A loss of GBP154,000 (2010 GBP207,123) has been recognized. As at 31 December 2011 the G&M Joint Venture owed KEFI Minerals an amount of GBP38,891 (2010 GBP31,649).

##### 19.3 Joint Venture with listed Centerra Gold Inc

KEFI Minerals entered into a joint venture with TSX listed Centerra Gold Inc ("Centerra") in the 100%-owned Bakir Tepe Project in southwestern Turkey. Bakir Tepe is prospective for volcanic-hosted massive sulphide ("VHMS") polymetallic deposits and a drilling programme is planned to commence soon. Under the terms of the joint venture, Centerra stood to earn a 51% interest in the Bakir Tepe Project upon contributing US\$750,000 to the joint venture over 2 years with a minimum expenditure of US\$350,000 in the first year. There is a 45 day exclusivity period in which to execute a final agreement.

Once Centerra had earned its 51% interest, each party would fund their respective percentage interests subject to dilution for non-participation in such expenditure. If either party's interest was diluted to less than 10%, that party's interest will automatically be converted to a 2.0% net smelter return royalty.

The cumulative advances made by Centerra Gold (KB) Inc until the 31 December 2010 amounted to US\$270,984. The Bakir Tepe Joint Venture was treated as a joint venture and was equity accounted. A loss of GBP 63,892 was recognized in the 2010 accounts.

On 15 December 2010, Centerra Gold Inc advised the Company of its intention to withdraw from the Bakir Tepe Joint Venture. The cumulative advances made by Centerra Gold Inc until 15 December 2010 amounted to US\$270,984. Under the terms of the agreement no amounts are due to Centerra Gold Inc following their withdrawal from the project.

Following the withdrawal of Centerra Gold Inc, an income of GBP 66,733 was recognised in the 2011 accounts (Note 4).

#### 20 Trade and other payables

	2011 GBP'000	2010 GBP'000
<b>The Group</b>		
Trade payables	126	107
Accruals	4	7
Payable to shareholders (Note 21.2)	121	6
	<u>251</u>	<u>120</u>
<b>The Company</b>		
Trade payables	106	88
Payable to shareholders (Note 21.2)	121	6
	<u>227</u>	<u>94</u>

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 21. Related party transactions

The following transactions were carried out with related parties

##### 21.1 Compensation of key management personnel

The total remuneration of the Directors and other key management personnel was as follows

	2011 GBP'000	2010 GBP'000
Directors' fees (Note 5)	196	176
Other key management personnel fees	57	143
Share-based benefits to other key management personnel	-	15
	<u>253</u>	<u>334</u>

The Company has an ongoing service agreement with EMED Mining Public Ltd for provision of management and other professional services (Note 21.3)

##### Share-based benefits

The directors and key management personnel have been granted ordinary share options that expire six years after grant date and are exercisable at the exercise price in whole or in part no more than one third after one year from the grant date, two thirds after two years from the grant date and the balance after three years from the grant date. No options have been issued or exercised during the period

##### 21.2 Payable to shareholders

Name	Nature of transactions	2011 GBP'000	2010 GBP'000
EMED Mining Public Ltd	Finance	<u>121</u>	<u>6</u>

##### 21.3 Transactions with shareholders

Name	Nature of transactions	2011 GBP'000	2010 GBP'000
EMED Mining Public Ltd	Provision of management and other professional services	<u>115</u>	<u>115</u>

#### 22 Contingent liabilities

In 2006, EMED Mining Public Ltd acquired a proprietary geological database that covers extensive parts of Turkey and Greece and also EMED transferred to the Company that part of the geological database that relates to areas in Turkey

Under the agreement, the Company has undertaken to make a payment of approximately GBP46,000 (AUD105,000) for each tenement it is subsequently awarded in Turkey and which was identified from the database. The maximum number of such payments required under the agreement is four, resulting in a contingent liability of up to GBP184,000. These payments are to be settled by issuing shares in the Company. To date, only one tranche of shares have been issued under this agreement in June 2007 for GBP43,750 (AUD105,000)

## KEFI MINERALS PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 23. Relationship deed

A Relationship Deed between EMED Mining Public Limited ("EMED") and the Company dated 7 November 2006, by which EMED agrees not to operate in Bulgaria and Turkey, and the Company agrees not to operate in Albania, Armenia, Azerbaijan, Cyprus, Greece, Hungary, Iran, Oman, Romania, Saudi Arabia, Serbia or Slovakia the "EMED Area" without prior approval from EMED

The Relationship Deed provides that EMED has the right to appoint one non-executive director of the Company. It also provides EMED with a right of first refusal in respect of funding any proposed mining or exploration project of the Company. The Relationship Deed provides that the Company shall refer any opportunity to conduct mining or exploration activity in the EMED Area to EMED, and EMED shall refer any such opportunity in Bulgaria or Turkey to the Company.

EMED has since granted the Company the right to explore in Saudi Arabia in return for which it will receive, to the extent possible under legislation in Saudi Arabia, first right of refusal over participation in any projects developed (or not taken up) by the joint venture established on 28 May 2009 in that country with Abdul Rahman Saad Al-Rashid & Sons Company Limited.

#### 24. Capital commitments

The Group has no material capital or other commitments as at 31 December 2011.

#### 25. Events after the reporting date

In January 2012, the Company announced that it had decided to allow its exclusivity period over the tailings retreatment project and mining of remnant ore at the Tiout Mine in Morocco, to lapse. The due diligence and evaluation work that was conducted during the exclusivity period, since July 2011, which involved drill testing, metallurgical testwork, the compilation of historic mining and exploration data, and the investigation of abandoned underground mine works, demonstrated less potential than initially envisaged. The amount of US\$250,000 which was paid for this was expensed in the 2011 accounts.

In February 2012, the Company raised additional funds by the issue of 61.7 million shares at 3p to raise GBP1.85 million.

In April 2012, the Company announced the formal granting of the Hikynn South and Selib North Projects licenses, with the respective field work having advanced to the stage of drilling, which is planned to commence during the second quarter of 2012.

There were no other material after the period events which have a bearing on the understanding of the financial statements.

#### 26. Adoption of new and revised International Financial Reporting Standards (IFRSs)

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2011. This adoption did not have a material effect on the accounting policies of the Group.

## CORPORATE DIRECTORY

<b>Directors</b>	Aristidis (Harry) Anagnostaras-Adams (Non Executive Chairman) Ian Rutherford Plimer (Non Executive Director – Deputy Chairman) Jeffrey Guy Rayner (Managing Director) John Edward Leach (Finance Director)
<b>Principal Place of Business</b>	Cumhuriyet Bulvarı No 140/1 Isık Apt, K 8 Alsancak Izmir Turkey
<b>Exploration Office</b>	Cemal Gursel Caddesi Yalı Apt No 304 Kat 4 D 9 35501 Karsiyaka Izmir Turkey
<b>Registered Office</b>	27/28 Eastcastle Street London W1W 8DH United Kingdom
<b>Company Secretary</b>	Cargil Management Services Limited 22 Melton Street London NW1 2WB United Kingdom
<b>Auditors</b>	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB United Kingdom
<b>Nominated Adviser and Broker</b>	Fox Davies Capital Limited 1 Tudor Street, London EC4Y 0AH United Kingdom
<b>Share Registrar</b>	Share Registrars Limited Suite E, First floor, 9, Lion & Lamb Yard, Farnham, Surrey GU9 7LL United Kingdom

**KEFI Minerals is listed on AIM (Code: KEFI)**  
[www.kefi-minerals.com](http://www.kefi-minerals.com)