

CO NO

07139678

**SOVEREIGN
MINES OF
AFRICA
PLC**

Annual Report 2012

Sovereign Mines of Africa is an AIM listed exploration company focussed on the discovery and delineation of major gold systems with multi-million ounce potential in sub Saharan Africa.

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COMPANIES HOUSE

“The exploration and discovery of oil and gas in West Africa.”

Directors

David B Pearl (Chairman)
John Barry (Exploration Director)
Nathan Steinberg (Financial Director)
James Comyn (Non-executive Director)
John Prochnau (Non-executive Director)

Group Vice President

Cherif Haidara

Registered Office

2nd Floor
New Penderel House
283/288 High Holborn
London WC1V 7HP

Company Secretary:

Cargil Management Services Limited
27/28 Eastcastle Street
London W1W 8DH

Company Registration Number

07139678

Auditors

Crowe Clark Whitehill LLP
St. Bride's House
10 Salisbury Square
London EC4Y 8EH

Registrars

Share Registrars Limited
Suite E – First Floor
9 Lion and Lamb Yard
Farnham
Surrey
GU9 7LL

Nominated Adviser & Broker

Shore Capital and Corporate Limited
Bond Street House
14 Clifford Street
London W1S 4JU

Legal Advisers

Edwin Coe LLP
2 Stone Buildings
Lincoln's Inn
London WC2A 3TH

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Flagship Project - Three substantial and highly prospective gold properties, any one of which could become a significant asset.

Flagship Project - Mandiana-Magana straddles a major gold mineralising system within a world-class gold district. The property has multiple zones of gold mineralisation along two major sub-parallel gold trends.

Discovery - Drilling results to date at Mandiana, extensive artisanal activity, together with the large scale of the gold mineralizing system, clearly indicate multi-million-ounce potential.

Progress is being made towards identifying drilling targets at Dalagna and Marela.

Strengths of SMA

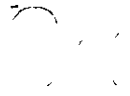
Management team with a strong track record of multi-million-ounce gold discoveries.

Board of Directors and local management have extensive network of Government contacts throughout Africa.

Government of Guinea an equity partner and assisted in selection of licences.

2 Senior Civil Servants in the Guinean Ministry of Mines on Board of local subsidiary (Sovereign Mines of Guinea).

Opportunity to replicate the PPP strategy across sub-Saharan Africa and position SMA as an incubator of major gold development projects.



“Work carried out at Mandiana in 2012, has provided our geologists with the data and confidence to aggressively target the delineation of a maiden resource in 2013, at our flagship property.”

We are pleased to report that during 2012, the Company has continued to make encouraging progress and in particular, built on the success of its maiden drilling programme in 2011 at its flagship property at Mandiana in the Republic of Guinea

Results and funding

In order to fund on-going financial requirements, the Company issued 29 million new ordinary shares to Praetorian Resources Limited, in exchange for 2,200,000 Praetorian shares and £640,000 in cash on the 4th July 2012. During the year, the company incurred a loss of £583,684 (2011 £327,979), which includes the impairment loss of £118,853 from the non-renewal of the licences at Bagui and Kouroussa. Shortly after the year-end, in very challenging market conditions, it raised another £125 million from a placing of 41,666,667 new ordinary shares with institutional and other investors. The money raised from this latest issue will largely be used with the intention of delineating a significant preliminary resource at a potentially economic tonnage and grade at Mandiana, with the objective of establishing a bulk mineable open pit gold mining operation at the project. Importantly this drilling will also include the first drill-testing of an additional four gold prospects as we continue to develop the full potential of this very large gold mineralisation system.

Mandiana Magana – gold mineralization at depth confirmed

The Mandiana property is located within the Siguiri Basin. This is a gold region with enormous potential based on the geology and disconnect between the widespread artisanal activity in the region and the very small amount of commercial production. The Mandiana gold property is the site of historic extensive artisanal mining, which prior to this programme had never been drilled or evaluated by modern exploration methods. Since the acquisition of the licence area, over 9,000 artisanal pits have been mapped by our team, outlining the length and width of the mineralised corridor. This initial drilling programme confirmed gold mineralisation at depth beneath the small-scale workings and indicates a multi-million-ounce gold potential.

Encouraging 2nd phase drilling results – 3rd phase commencing

Last August, the Company reported the results of its second phase of drilling, which consisted of 35 reverse circulation holes totalling nearly 5,000 metres. These very encouraging results confirmed strike extensions to gold mineralisation discovered in the maiden drilling programme. 34 out of 35 drill holes intercepted potentially economic gold mineralisation, extending to an impressive depth of approximately 120 metres, still within the highly weathered oxide zone. The third phase of drilling is currently underway. This will involve

more than 8,000 metres of reverse circulation drilling and it is anticipated that drilling results will be announced in the third quarter of this year.

Excellent local community relations

In-country we continue to maintain excellent relations with the local community and have reason to be proud of our record on health and safety and the environment.

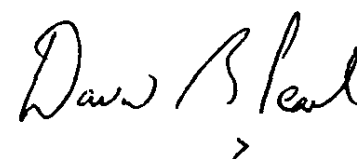
Drill targets identified at Dalagna and Marela

At Dalagna and Marela we have identified compelling drill targets and continue to carry out initial exploration work, which will involve infill soil geochemical sampling. Following the completion of this initial drill programme, the Company will be in a position to determine the potential for economically viable large-scale mining moving forward at both project areas.

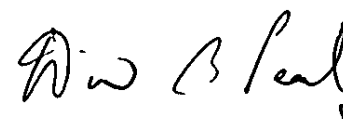
Valued shareholder support

Whilst it is frustrating that small-cap gold exploration companies are finding it difficult to attract widespread Stock Market support at the current time, we expect that by delivering on our aim of establishing a preliminary resource at Mandiana in the coming year we will positively distinguish ourselves from our peers, and this will be positively reflected in our share price.

In the meantime, we would like to thank our shareholders for their continuing support.



David B Pearl FCA (Chairman)
22 May 2013



West Africa

One of the fastest growing gold districts in the world

- One of the largest gold exploration portfolios in Guinea with three highly prospective properties.
- Siguiri Basin is one of the world's most remote, but fastest growing and under- explored gold areas.
- Gold mineralisation already found at all three properties.

Mandiana-Magana

- Two major mineralised trends + new target at Namatou in West Mandiana.
- At least 14km (6km + 8km) strike projection.
- All drilling to date confined to the southern corridor beneath small-scale working has intersected potential ore-grade gold mineralisation.

Mandiana-Magana

- At Yagbelen – a solid base now established to build a significant gold resource.
 - Two Phases of drilling completed (37 RC drill-holes- 8,000 metres) at three prospects
- To realize potential of this large gold system:
- Focussed drilling of potential higher grade shoots at Yagbelen, Woyondjan and Damantere
 - Initial testing of new compelling drill-targets along strike at Masafren, Foulouni Mountain and Sidylamin – new target in Mandiana West

Mandiana-Magana

Phase I Significant Intersections				
Drill Hole	From	To	Length	Gold gpt
RCY 07	56	79	23	1 13
	101	132	31	1 54
RCY 11	62	76	14	2 58
RCY 12	9	26	17	2 07
RCY 13	44	52	8	1 03
	57	59	2	2 97
	71	76	5	1 92
	109	123	14	1 46
RCY 14	39	44	5	1 42
RCY 15	0	12	12	0 88
RCW 19	10	13	3	2 57
	23	30	7	1 27
	121	132	11	2 39
RCW 20	65	67	2	2 36
RCW 21	0	24	24	2 08
	49	52	3	1 04
	99	108	9	6 40
RCW 22	103	119	16	1 06
RCW 23	42	49	7	1 77
RCD 03	63	76	13	1 05
	97	107	10	1 10

Phase II Significant Intersections				
Drill Hole	From	To	Length	Gold gpt
RCY 37	114	190	76	2 62 (1 41)
including	189	190	1	1 23
RCY 36	35	65	30	3 25
including	53	54	1	20 90
RCY 49	7	10	3	14 83
including	8	9	1	42 80
RCY42	73	92	19	1 64
including	85	92	7	3 42
including	91	92	1	12 20
RCY 38	66	89	23	1 21
including	87	88	1	12 20
RCY41	128	145	17	1 47
RCY47	151	170	19	1 25

Dalagna

- **Extension Modern Orpallage with significant historical alluvial resource.**
- **Analysis of soil sampling has identified geochemical anomaly over 3km in length.**
- **Further sampling at higher density to reduce size of target for initial drilling.**

Marela

- Extensive historic and current alluvial gold artisanal workings.
- Very limited modern exploration of prospective Archean greenstone belts for primary gold sources.
- Numerous gold anomalies, with values up to 12.7ppm gold identified in stream sediment geochemical surveys undertaken by SMA in 2012.
- Follow-up prospecting, mapping and soil geochemical surveys, to define drill targets, in progress with results expected in H2 2013.

Annual Report 2012

The directors present their report with the financial statements of the Company and the Group for the year ended 31 December 2012

PRINCIPAL ACTIVITY

The principal activity of the Group in the period under review was that of exploration of gold concessions in the Republic of Guinea The principal activity of the Company was that of a holding company

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The Group's financial performance for the year was in line with directors' expectations The group loss after taxation for the year to 31 December 2012 amounted to £583,684 (2011 £327,979) No dividends were paid during the year and none are proposed A review of the activity of the business and future prospects is contained in the Chairman's Statement on page 4 which accompanies these financial statements

KEY PERFORMANCE INDICATORS

The key indicator of performance for the Group is its success in identifying, acquiring, developing and divesting investments in projects so as to create shareholder value

Control of bank and cash balances is a priority for the Group and these are budgeted and monitored closely to ensure that it maintains adequate liquid resources to meet financial commitments as they arise

At this stage in its development, quantitative key performance indicators are not an effective way to measure the Group's performance

However, a qualitative summary of performance is in the period in the Chairman's Statement

GOING CONCERN

These consolidated financial statements are prepared on a going concern basis which the directors believe to be appropriate for the reasons given below and also in Note 3 to the financial statements

In common with many exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches to finance its activities for limited periods only Further funding will be required from time to time to finance the Company's activities The directors have prepared cash flow projections for the next 12 months from the date of signing these financial statements On the basis of the cash flow projections, the directors are of the opinion that the additional funding of £1,250,000 secured by the Company on 22 January 2013 as set out in note 18 to the financial statements will provide sufficient additional financial resources in the twelve months from the date of signing these financial statements to enable the Group to undertake its projected programme of exploration activity in that period and to meet its commitments

DIRECTORS

The directors who have held office (since incorporation unless stated) during the period and their interests in the company's issued share capital are as follows

Number of shares

	At 31.12.2012	At 31.12.2011
D B Pearl	24,380,199	24,380,199
J P Barry	4,000,000	4,000,000
J A Comyn	16,000,000	16,000,000
J F Prochnau	4,000,000	4,000,000
N A Steinberg	1,100,000	1,005,000

Details of the remuneration paid to the directors is disclosed in notes 5 and 17 to the financial statements

PRINCIPAL RISKS AND UNCERTAINTIES

In common with other companies operating in natural resources exploration, the Group's activities are speculative and involve a high degree of risk

The Group's exploration work involves participation in geological work programmes. Interpretations of the results of these programmes are dependent on judgements and assessments that are speculative and these interpretations are applied in designing further work programmes to which the Company can commit significant resources

Work programmes often involve drilling and other geological work that present significant engineering challenges that are subject to unexpected operational problems. Furthermore, activities generally take place in remote locations that can be subject to unexpected climate events, and possible acts of terrorism, criminal threats and piracy and potential environmental risks

The Group operates in the Republic of Guinea where political, economic, legal, regulatory and social uncertainties are potential risk factors

FINANCIAL RISK MANAGEMENT

The Group's operations expose it to financial risks that include credit risk, liquidity risk, and market risks. The Group does not have any debt and is not therefore required to use derivative financial instruments to manage interest rate costs nor is hedge accounting applied

1. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. In keeping with similar sized exploration groups, the Group's continued future operations depend on the ability to raise sufficient working capital through the issue of equity share capital. The Directors are confident that adequate funding will be forthcoming with which to finance operations. Controls over expenditure are carefully managed

2. Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instrument. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return on risk

(i) Pricing and risks

The directors consider there to be minimal price risk to the business

(ii) Interest rate cash flow risk

The Group does not have interest-bearing liabilities. Interest bearing assets are only cash balances that earn interest at a floating rate

(iii) Foreign exchange risk

The group principally operates in US Dollars. The directors believe that the contracts for transfers of funds to Africa are so small, that there would be no benefit gained from hedging these contracts in the market. As such currency is bought at the spot rates prevailing on the days transfers are to take place. This situation is monitored on a regular basis

3. Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue individually as going concerns, while maximising the return to Shareholders through the optimisation of debt and equity balances. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust its capital structure, the Group may adjust or issue new shares or raise debt. No changes were made in the objectives, policies or processes during the year ended 31 December 2012. The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained losses as disclosed in the Consolidated Statement of Changes in Equity

4. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities

The Group and the Company's financial assets comprise receivables and cash and cash equivalents. The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies. The exposure of the Group and the Company to credit risk arises from default of its counterparty, with maximum exposure equal to the carrying amount of cash and cash equivalents in the Group's Statement of Financial Position. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are connected entities.

The Group does not hold any collateral as security.

CORPORATE GOVERNANCE

Corporate policies

Sovereign Mines of Africa takes its health, safety, environmental and community responsibilities seriously, and has developed policies and systems to ensure that it explores in a safe, low impact and consultative manner, maximising the sustainability of its present and future operations for the benefit of all stakeholders.

Health and safety

Sovereign Mines of Africa takes the health and safety of its employees and contractors seriously, and strives to exceed statutory obligations and achieve best practice. To this end, a new safety management system has been implemented for its exploration operations.

Environment

Sovereign Mines of Africa operates in strict adherence to local and Governmental standards with regard to environmental impact on the local community. This procedure includes pre-exploration checks and post-exploration remediation programs. Currently, no unfulfilled commitments exist to remediate land upon which the Company has conducted exploration work.

Community

Sovereign Mines of Africa is committed to working consultatively and co-operatively within the communities in which it operates, which includes local subsistence farmers and pastoralists and firmly believes that future mining operations should be to the benefit of all.

To this end, Sovereign Mines of Africa personnel participate in cultural awareness programs and have forged close ties with landholders and maintain a constructive dialogue with the Department of Environment and local community representatives.

Corporate governance

Although not required by AIM Rules, the Directors comply with the provisions of the QCA Guidelines to the extent that they believe it is appropriate in light of the size, stage of development and resources. At present, due to the size of the Group, audit and risk management issues will be addressed by the Board. As the Group grows, the Board will consider establishing an audit and risk management committee and will consider developing further policies and procedures which reflect the principles of good governance.

The Company has adopted, and will operate where applicable, a share dealing code for directors and senior executives under the same terms as the Model Code on directors' dealings in securities, published from time to time by the UK Listing Authority.

As required, the Company will comply with the provisions of the AIM Rules, as amended from time to time, which govern the operation and administration of the AIM market, including the arrangements for the admission of securities to AIM and ongoing requirements once admitted to trading.

The board of directors comprises two part-time executive directors and three non-executive directors who qualify as independent non-executive directors as defined by the UK Code of Corporate Governance ("the code"). The directors are of the opinion that the recommendations of the code have been implemented to an appropriate level. The board, through the chairman and non-executive directors, maintain regular contact with its advisers and public relations consultants in order to ensure that the board develops an understanding of the views of major shareholders about the company.

The Board meets at least four times a year. The board is responsible for formulating, reviewing and approving the Group's strategy, financial activities and operating performance. Day-to-day management is devolved to the managing director of the local subsidiary who is charged with consulting with the board on all significant financial and operational matters. Consequently, decisions are made promptly and following consultation among directors concerned where necessary and appropriate.

All necessary information is supplied to the directors on a timely basis to enable them to discharge their duties effectively, and all directors have access to independent professional advice, at the Company's expense, as and when required

The participation of both private and institutional investors at the Annual General Meeting is welcome by the board

Supplier payment policy

It is the Group's policy to pay suppliers in accordance with the terms of business agreed with them usually within 30 days. There were no trade creditors outstanding at the balance sheet date (2011 nil)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' 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 have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU") and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 group web-site www.sovmines.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

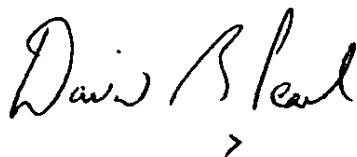
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware, and each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information

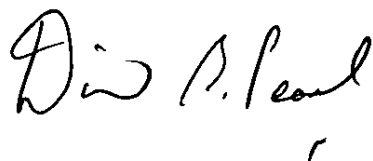
AUDITORS

The auditors, Crowe Clark Whitehill LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006

ON BEHALF OF THE BOARD:



D B Pearl
Chairman
Date 22 May 2013



We have audited the financial statements of Sovereign Mines of Africa Plc for the year ended 31 December 2012 which comprise Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statement of Changes in Equity and the related notes numbered 1 to 18

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 auditors

As explained more fully in the Statement of Directors' Responsibilities, 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 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 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 of the parent company's affairs as at 31 December 2012 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 and as regards the group financial statements, Article 4 of the IAS Regulation

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



Leo Malkin
Senior Statutory Auditor
For and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
London
22 May 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 £	2011 £
Administrative expenses – (operating loss)	6	(477,410)	(334,016)
Losses on financial assets at fair value		(110,000)	-
Finance income	7	3,726	6,037
Loss on ordinary activities before taxation		(583,684)	(327,979)
Taxation	8	-	-
Loss for the year		(583,684)	(327,979)
Other comprehensive income		-	-
Total comprehensive income for the year		(583,684)	(327,979)
Loss for the year and Total comprehensive loss attributable to:			
Owners of the parent		(583,684)	(327,979)
Non-controlling interest		-	-
		(583,684)	(327,979)
Loss per ordinary share (pence)			
From continuing operations: basic and diluted	10	(0.32)p	(0.21)p

The notes on pages 23 to 36 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Share Capital £	Share Premium £	Reconstruction Reserve £	Profit & Loss Account £	Total £
Balance at 1 January 2012	1,656,922	2,722,508	(586,100)	(860,353)	2,932,977
Loss and total comprehensive income for the year	-	-	-	(583,684)	(583,684)
Issue of shares, net of share issue costs	290,000	1,430,000	-	-	1,720,000
Balance at 31 December 2012	<u>1,946,922</u>	<u>4,152,508</u>	<u>(586,100)</u>	<u>(1,444,037)</u>	<u>4,069,293</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Share Capital £	Share Premium £	Reconstruction Reserve £	Profit & Loss Account £	Total £
Balance at 1 January 2011	1,399,022	1,018,992	(586,100)	(532,374)	1,299,540
Loss and total comprehensive income for the year	-	-	-	(327,979)	(327,979)
Issue of shares, net of share issue costs	257,900	1,703,516	-	-	1,961,416
Balance at 31 December 2011	<u>1,656,922</u>	<u>2,722,508</u>	<u>(586,100)</u>	<u>(860,353)</u>	<u>2,932,977</u>

The Reconstruction Reserve represents the difference between the investment in the subsidiary and the share capital in the subsidiary on acquisition

The notes on pages 23 to 36 form an integral part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Share Capital £	Share Premium £	Profit & Loss Account £	Total £
Balance at 1 January 2012	1,656,922	2,722,508	(413,154)	3,966,276
Loss and total comprehensive income for the year	-	-	(463,635)	(463,635)
Issue of shares, net of share issue costs	290,000	1,430,000	-	1,720,000
Balance at 31 December 2012	<u>1,946,922</u>	<u>4,152,508</u>	<u>(876,789)</u>	<u>5,222,641</u>

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Share Capital £	Share Premium £	Profit & Loss Account £	Total £
Balance at 1 January 2011	1,399,022	1,018,992	(88,680)	2,329,334
Loss and total comprehensive income for the year	-	-	(324,474)	(324,474)
Issue of shares, net of share issue costs	257,900	1,703,516	-	1,961,416
Balance at 31 December 2011	<u>1,656,922</u>	<u>2,722,508</u>	<u>(413,154)</u>	<u>3,966,276</u>

The notes on pages 23 to 36 form an integral part of these financial statements

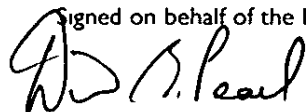
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

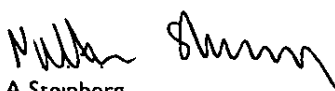
	Note	2012 £	2011 £
NON CURRENT ASSETS			
Intangible assets	11	2,804,835	1,763,249
		<u>2,804,835</u>	<u>1,763,249</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	13	990,000	-
Cash at bank		349,618	1,219,947
		<u>1,339,618</u>	<u>1,219,947</u>
TOTAL ASSETS		<u>4,144,453</u>	<u>2,983,196</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	75,160	50,219
TOTAL LIABILITIES		<u>75,160</u>	<u>50,219</u>
NET ASSETS		<u>4,069,293</u>	<u>2,932,977</u>
SHAREHOLDERS EQUITY			
Share capital	16	1,946,922	1,656,922
Share premium account	16	4,152,508	2,722,508
Reconstruction reserve		(586,100)	(586,100)
Profit and loss account		(1,444,037)	(860,353)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>4,069,293</u>	<u>2,932,977</u>

The financial statements on pages 16 to 36 were approved and authorised for issue by the Board of Directors on 22 May 2013

Signed on behalf of the Board of Directors



D B Pearl
Director



N A Steinberg
Director

The notes on pages 23 to 36 form an integral part of these financial statements

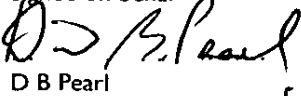
COMPANY STATEMENT OF FINANCIAL POSITION

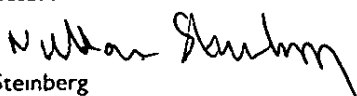
As at 31 December 2012

	Note	2012 £	2011 £
NON CURRENT ASSETS			
Investments	12	3,957,339	2,796,522
		3,957,339	2,796,522
CURRENT ASSETS			
Financial assets at fair value through profit or loss	13	990,000	-
Cash at bank		349,462	1,219,792
		1,339,462	1,219,792
TOTAL ASSETS		5,296,801	4,016,314
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	74,160	50,038
TOTAL LIABILITIES		74,160	50,038
NET ASSETS		5,222,641	3,966,276
SHAREHOLDERS EQUITY			
Share capital	16	1,946,922	1,656,922
Share premium account	16	4,152,508	2,722,508
Profit and loss account		(876,789)	(413,154)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		5,222,641	3,966,276

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Signed on behalf of the Board of Directors


D B Pearl
Director


N A Steinberg
Director

The notes on pages 23 to 36 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	2012 £	2011 £
Cash flows from operating activities		
Loss before taxation	(583,684)	(327,979)
Impairment losses on intangible assets	118,853	-
Unrealised losses on financial assets at fair value	110,000	-
Increase in trade and other payables	24,941	6,625
Net cash flows used in operating activities	(329,890)	(321,354)
Cash flows from investing activities		
Purchase of intangible fixed assets	(1,160,439)	(1,335,337)
Net cash used in investing activities	(1,160,439)	(1,335,337)
Cash flows from financing activities		
Issue of shares, net of share issue costs	620,000	1,961,416
Net cash used in financing activities	620,000	1,961,416
(Decrease)/Increase in cash and cash equivalents	(870,329)	304,725
Cash and cash equivalents at beginning of year	1,219,947	915,222
Cash and cash equivalents at end of year	349,618	1,219,947

Significant Non Cash movements

The financial assets at fair value were acquired by the issue of Ordinary shares of 0.01p each with a total consideration of £1,100,000

The notes on pages 23 to 36 form an integral part of these financial statements

COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	2012 £	2011 £
Cash flows from operating activities		
Loss before taxation	(463,635)	(324,474)
Unrealised losses on financial assets at fair value	110,000	-
Increase in trade and other payables	24,122	6,444
Net cash flows used in operating activities	<u>(329,513)</u>	<u>(38,030)</u>
Cash flows from investing activities		
Loans to subsidiary	(1,160,817)	(1,333,242)
Net cash used in investing activities	<u>(1,160,817)</u>	<u>(1,333,242)</u>
Cash flows from financing activities		
Issue of shares, net of share issue costs	620,000	1,961,416
Net cash used in financing activities	<u>620,000</u>	<u>1,961,416</u>
(Decrease)/Increase in cash and cash equivalents	<u>(870,330)</u>	<u>310,144</u>
Cash and cash equivalents at beginning of year	1,219,792	909,648
Cash and cash equivalents at end of year	<u><u>349,462</u></u>	<u><u>1,219,792</u></u>

Significant Non Cash movements

The financial assets at fair value were acquired by the issue of Ordinary shares of 0.01p each with a total consideration of £1,100,000

The notes on pages 23 to 36 form an integral part of these financial statements



1. NATURE OF OPERATIONS

These financial statements are for Sovereign Mines of Africa Plc ("the Company") and its subsidiary undertakings. The company registered office is New Penderel House, 283/288 High Holborn, London, WC1V 7HP and is domiciled in England and Wales and incorporated under the Companies Act 2006. The nature of the company's operations and its principal activities are set out in the director's report on page 10. The principal place of business of the Group is in Guinea.

2. GENERAL INFORMATION OF THE GROUP

Sovereign Mines of Africa Plc prepares its financial statements in accordance with applicable International Financial Reporting Standards (IFRS) and interpretations issued by the IASB as adopted by the European Union.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue, but not yet effective:

Issued but not yet EU adopted

IFRS 10 Consolidated financial statements
IFRS 11 Joint arrangements
IFRS 12 Disclosure of interests in other entities
IFRS 13 Fair value management
IAS 1 (amended) Presentation of items other than comprehensive income
IAS 19 (amended) Employee benefits
IAS 27 Separate financial statements
IAS 28 Investments in associates and joint ventures
IFRIC 20 Stripping costs in the production phase of a surface mine

Issued and EU adopted

IFRS 19 (amended) Government loans
IFRS 9 (amended) Financial instruments
Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)
Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

The Directors do not anticipate that the adoption of these standards and interpretations in future reporting periods will have a material impact on the Group's reported results. The financial statements are rounded to the nearest £ Sterling.

3. ACCOUNTING POLICIES

The accounting policies, applied on a consistent basis in the preparation of the consolidated financial statements, are as follows:

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IASs") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted for use in the European Union.

The consolidated financial statements comprise the financial statements of all entities within the Group. The financial statements of the subsidiaries are prepared until the same reporting date of the parent company.

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions that are recognised in assets are eliminated in full.

Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The group was formed by the formation of the company followed by the issue of shares to acquire the entire share capital of the group's principal trading subsidiary, Sovereign Mines of Africa Limited, which had commenced pre-drilling exploration activity.

In determining the appropriate accounting treatment for this transaction, the Directors considered IFRS 3 "Business Combinations" (revised 2008). However, they concluded that this transaction fell outside the scope of IFRS 3 (revised 2008) since the transaction described above represents a combination of entities under common control.

In accordance with IAS 8 "Accounting Policies, changes in accounting estimates and errors", in developing an appropriate accounting policy, the Directors have considered the pronouncements of other standard setting bodies and specifically looked to accounting principles generally accepted in the United Kingdom ("UK GAAP") for guidance (FRS 6 – Acquisitions and mergers) which does not conflict with IFRS and reflects the economic substance of the transaction.

Accordingly, the difference between the investment in the subsidiary and the share capital in the subsidiary on acquisition has been accounted for as a reconstruction reserve.

All other business combinations have been treated under the acquisition method of accounting per IFRS 3.

Investments in subsidiaries

Investments in subsidiaries held as fixed assets are stated at cost less provision for any impairment in value in the Company's Statement of Financial Position.

Going concern policy

Although the Group's assets are not generating revenues and an operating loss has been reported, the Directors have formed the opinion that the Group will have sufficient funds to undertake its operations over the next 12 months from the date of signing these financial statements. This is based on cash flow projections prepared for that period which indicate that the additional funding of £1,250,000 secured by the Company on 22 January 2013 as set out in note 18 below will provide sufficient additional financial resources in the twelve months from the date of signing these financial statements to enable the Group to undertake its projected programme of exploration activity in that period and to meet its commitments.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Interest revenue

Interest revenue is recognised as it accrues, using the effective interest rate method ("EIR").

Exploration and evaluation development costs

Exploration and evaluation costs related to an area of interest are carried forward as an intangible asset in the statement of financial position where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest, or alternatively by its sale. This expenditure will be carried at cost less accumulated amortisation and impairment. Where these conditions are not met such costs will be written off as incurred.

Development expenditure incurred by or on behalf of the Group or acquired from a third party is also classified as an intangible asset and is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises acquisition costs and other incurred costs directly attributable to the construction of the mine and the related infrastructure. This expenditure is carried at cost less accumulated amortisation and impairment.

Exploration, evaluation and development expenditure are categorised under deferred exploration and development costs, exploration data and prospecting rights and mining licences in the statement of financial position according to the nature of the expenditure. Exploration and development costs will include all directly attributable expenditure.

Once a development decision has been taken, the carrying amount of the exploration, evaluation and development expenditure in respect of the area of interest will be aggregated with the development expenditure and classified under non-current assets as 'exploration and development and mining property' within property, plant and equipment.

No amortisation will be recognised in respect of exploration, evaluation and development expenditure until it is reclassified as a development property and production commences.

Exploration, evaluation and development expenditure and mining property is tested for impairment annually if facts and circumstances indicate that impairment may exist.

Exploration, evaluation and development expenditure will also be tested for impairment once commercial reserves are found, before the assets are transferred to "mining property".

Licences

Licence rights acquired will be amortised over the period of the licence to exploit such rights, typically five to fifteen years. Provision will be made for any impairment in value, and the provision will be reviewed on an annual basis.

The carrying value of tangible fixed assets will be assessed annually and any impairment will be charged to the statement of comprehensive income. The expected useful economic life of tangible fixed assets will be reviewed annually.

Impairment of non-financial assets

The Directors assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Directors estimate the asset's recoverable amount. An asset's recoverable amount will be the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset will be considered impaired and will be written down to its recoverable amount. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model will be used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Directors make an estimate of the recoverable amount. A previously recognised impairment loss will be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset will be increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise listed equity securities. They are carried in the statement of financial position at fair value with changes in fair value recognized in the consolidated statement of comprehensive income. Fair value is determined by current bid prices.

Trade and other receivables

Trade and other receivables will arise from normal commercial sales by the Group and will be classified as 'loans and receivables'. These will be recognized at invoice value adjusted for any allowance for impairment. Impairment and any reversal will be recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Group's loans and receivables include cash and cash equivalents. These include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within current liabilities in the statement of financial position.

Financial liabilities

The Group's financial liabilities comprise:

Trade and other payables

These are initially recognized at invoiced value. These will arise principally from the receipt of goods and services. There will be no material difference between the invoiced value and the value calculated on an amortised cost basis.

Foreign currency

The individual financial information of each entity will be presented in the currency of the primary economic environment in which the entity operates (its functional currency). The UK Pound Sterling is the presentation currency for the Sovereign Mines of Africa Group and the Company's financial information. The functional currency of the Company is Sterling.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") will be recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies will be retranslated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items will be included in the statement of comprehensive income for the period.

Taxation

Income tax expense or taxation recoverable represents the sum of the tax currently payable or recoverable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it will no longer be probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax

is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly in other comprehensive income, in which case the deferred tax is also be dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when the Sovereign Mines of Africa Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company or different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Operating profit and loss

Operating profit and loss comprises revenues less operating costs. Operating costs comprise adjustments for raw materials and consumables used, employee costs, amortisation, depreciation and impairment and other operating expenses.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

Critical accounting assumptions

The Directors make assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The assumptions that will have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Valuation of exploration, evaluation and development expenditure, mining property and mining equipment

- The value of the Group's exploration, evaluation and development expenditure, mining property and mining equipment will be dependent upon the success of the Group in discovering economic and recoverable mineral resources, especially in the countries of operation where political, economic, legal, regulatory and social uncertainties are potential risk factors.
- The future revenue flows relating to these assets is uncertain and will also be affected by competition, relative exchange rates between the US Dollar, the Euro and the Guinea Franc, and potential new legislation and related environmental requirements.
- The Group's ability to continue its exploration programs and develop its projects is dependent on future fundraisings the outcome of which is uncertain.
- The ability of the Group to continue operating within Guinea is dependent on a stable political environment which is uncertain based on the history of the country. This may also impact the Group's legal title to assets held which would also impact on the Group.
- There have been no changes made to any past assumptions.

Impairment testing

The recoverable amounts of cash generating units and individual assets will be determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations will require the use of estimates and assumptions. It is reasonably possible that assumptions may change which may impact the Directors' estimates and may then require a material adjustment to the carrying value of goodwill, tangible assets and intangible assets.

The Directors review and test the carrying value of tangible and intangible assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets will be grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates will be prepared of expected future cash flows for each group of assets.

Expected future cash flows used to determine the value in use of tangible and intangible assets will be inherently uncertain and could materially change over time

Events after the balance sheet date

Post period-end events that provide additional information about the Group's position are reflected in the Financial Statements. Post period-end events that are not adjusting events are disclosed in the notes when material

4. OPERATING SEGMENTS

Operating Segments are based on internal reports about components of the Group, which are regularly reviewed by the Chairman being the Chief Operating Decision Makers ("CODM") for strategic decision making and resource allocation in order to allocate resources to the segment and to assess its performance

The group undertakes only one business activity as described in the Director's report. All transactions between each reportable segment are accounted for using the same accounting policies as the Group uses, as set out in note 3. Accordingly, the Group's operating segments have been determined based on geographical areas

The Group has not generated revenue during either of the years ended 31 December 2012 or 31 December 2011

The Group's results by reportable segment is as follows

Year ended 31 December 2012

	UK £	Guinea £	Group £
RESULTS			
Operating loss	(348,507)	(238,903)	(587,410)
Interest income	3,726	-	3,726

Year ended 31 December 2011

	UK £	Guinea £	Group £
Operating loss	(261,424)	(72,592)	(334,016)
Interest income	6,031	7	6,037

All transactions between each reportable segment are accounted for using the same accounting policies as the Group uses, as set out in note 3 The Group's assets and liabilities by reportable segment are as follows

At 31 December 2012

	UK £	Guinea £	Group £
ASSETS			
Cash	349,462	156	349,618
Financial assets at fair value	990,000	-	990,000
Intangible Assets	-	2,804,835	2,804,835
Total assets	<u>1,339,462</u>	<u>2,804,991</u>	<u>4,144,453</u>
LIABILITIES			
Total liabilities	<u>74,160</u>	<u>1,000</u>	<u>75,160</u>

At 31 December 2011

	UK £	Guinea £	Group £
ASSETS			
Cash	1,219,792	155	1,219,947
Intangible Assets	-	1,763,249	1,763,249
Total Assets	<u>1,219,792</u>	<u>1,763,404</u>	<u>2,983,196</u>
LIABILITIES			
Total liabilities	<u>50,038</u>	<u>18</u>	<u>50,056</u>

5. STAFF COSTS

	2012	2011
	£	£
Wages and salaries	94,293	-
Social security costs	9,955	-
Directors' fees	-	-
	<u>104,248</u>	<u>-</u>

The average monthly number of Group employees during the year was as follows

	2012	2011
Directors	5	5
Employees	15	-
	<u>20</u>	<u>5</u>

All employees were engaged in exploration activities in Guinea Accordingly the employment costs form part of the exploration costs included in the financial statements as intangible assets No directors emoluments were paid during the year Details of all transactions with directors are set out in note 17 to the financial statements

6. OPERATING LOSS IS STATED AFTER CHARGING:

	2012	2011
	£	£
Impairment of intangible fixed assets	118,853	-
Fees payable to the company's auditor for the audit of the company's annual accounts	18,000	18,000
Fees payable to the company's auditor and its associates for other services		
Services relating to corporate finance transactions entered into	6,000	60,000
	<u>6,000</u>	<u>60,000</u>

7. FINANCE INCOME

	2012	2011
	£	£
Bank interest	3,726	6,037
	<u>3,726</u>	<u>6,037</u>

8. TAXATION

Analysis of the tax charge	2012	2011
	£	£
Current tax		
Tax	-	-
Total tax charge in income statement	-	-
Reconciliation of the tax charge	2012	2011
	£	£
Loss before tax	(583,684)	(327,979)
Loss before tax multiplied by standard rate of corporation tax in the UK of 24% (2011 26%)	(140,084)	(85,278)
Effects of		
Deferred tax not provided	140,084	85,278
Total tax charge in income statement	-	-

A deferred tax asset has not been recognised in respect of deductible temporary differences relating to losses carried forward at the year end, as there is insufficient evidence that taxable profits will be available in the foreseeable future against which the deductible temporary difference can be utilised. The amount of the asset not recognised is £345,902 (2011 £234,343). The asset would be recovered if the Group made taxable profits in future years.

9. LOSS OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company is not presented as part of these financial statements. The parent Company's loss for the year was £463,635 (Period ended 2011 £324,474).

10. LOSS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	2012	2011
Weighted average number of ordinary shares in issue	179,716,773	155,838,073
Loss after taxation	£(583,684)	£(327,979)
Loss per share (pence)	(0.32)p	(0.21)p

Due to there being a loss during the period there are no dilutive transactions and therefore no diluted loss per share has been presented. Details of shares issued since the year end are set out in note 18 below.

11. INTANGIBLE ASSETS

	Exploration costs
	£
Group	
Cost:	
At 1 January 2012	1,763,249
Additions	1,160,439
At 31 December 2012	<u>2,923,688</u>
Impairment:	
At 1 January 2012	-
Additions	118,853
At 31 December 2012	<u>118,853</u>
Net Book Value:	
At 31 December 2012	<u>2,804,835</u>
At 31 December 2011	<u>1,763,249</u>

Exploration activities are deferred until a reasonable assessment can be made of the existence or otherwise of economically recoverable reserves. No amortisation has been charged in the period. The directors have reviewed the carrying value of the exploration assets and consider them to be fairly stated and not impaired at 31 December 2012. The recoverability of the intangible assets is dependent upon the future realisation or disposal of the gold or other mineral resources.

The impairment losses of £118,853 relate to Dinguiraye and Kouroussa where management have taken the decision to not renew the exploration licences in those areas.

Work carried out in these areas had not indicated obvious potential for major gold deposits, and hence the exploration costs capitalised under IFRS 6 for these areas have been written off.

Impairment costs are included under "Administrative expenses" in the Consolidated Statement of Comprehensive Income.

12. INVESTMENTS

	Investments and long term loans in subsidiary undertakings	Total
	£	£
Cost:		
At 1 January 2012	2,796,522	2,796,522
Additions	1,160,817	1,160,817
At 31 December 2012	<u>3,957,339</u>	<u>3,957,339</u>

Details of the investments in subsidiary undertakings held by the company are as follows

Name of Company	Countries of operation	Country of incorporation	Holding	Proportion of shares and voting rights held	Nature of business
Sovereign Mines of Guinea Limited	Guinea	BVI	Ordinary Shares	52.5%	Mineral exploration
Guiord SA	Guinea	Guinea	Ordinary Shares	52.5%	Mineral exploration
Sovereign Mines of Africa Limited	Guinea	BVI	Ordinary Shares	100%	Mineral exploration

The financial statements of Sovereign Mines of Guinea Limited and Guiord SA have been consolidated in the financial statements because the Company has control over their boards and the majority of operating voting rights through agreements signed with other directors

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 £	2011 £
Listed investments	990,000	-

Amounts presented in respect of listed investments have been determined by reference to published price quotations on the London Stock Exchange

14. TRADE AND OTHER PAYABLES

Group	2012 £	2011 £
Accrued expenses	75,160	50,219

Company	2012 £	2011 £
Accrued expenses	74,160	50,038

15. FINANCIAL INSTRUMENTS

The Group and Company use financial instruments such as trade receivables and payables and other items that arise directly from their operations. The main purpose of these financial instruments is to help finance the Group's and Company's operations

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise

The Group's and Company's financial instruments, which are recognised in their respective statements of financial position, comprise financial assets at fair value recognised through profit and loss, cash and cash equivalents, receivables and payables. The information about the extent and nature of these recognised financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows are disclosed in the respective notes below, where applicable

The Group and Company do not generally enter into derivative transactions (such as interest rate swaps and forward foreign currency contracts) and it is, and has been throughout the period under review, the Group's and Company's policy that no trading in financial instruments shall be undertaken

There were no financial instruments not recognised in the statements of financial position of the Group and the Company

Financial instruments by category

Assets per statement of financial position	2012	2011
	£	£
Group		
Financial assets at fair value through profit and loss		
- Equities	990,000	-
Cash and cash equivalents	349,618	1,219,947
Total	<u>1,339,618</u>	<u>1,219,947</u>
Company		
Financial assets at fair value through profit and loss		
- Equities	990,000	-
Cash and cash equivalents	349,462	1,219,792
Total	<u>1,339,462</u>	<u>1,219,792</u>
Liabilities per statement of financial position		
	2012	2011
	£	£
Group		
Accrued expenses	75,160	50,219
Total	<u>75,160</u>	<u>50,219</u>
Company		
Accrued expenses	74,160	50,038
Total	<u>74,160</u>	<u>50,038</u>

The Directors consider the carrying value of the financial assets and liabilities to approximate their fair values

Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk and cash flow interest-rate risk. These risks are limited by the Group's financial management policies and practices described below

(a) Foreign currency exchange risks

The Group does not hedge its foreign currencies. The directors believe that the contracts for transfers of funds to Guinea are so small, there would be no benefit gained from hedging these contracts on the market. The situation is monitored on a regular basis. Transactions with vendors are mainly denominated in a number of currencies. Therefore the directors consider that the currency exposure arising from these transactions is not significant to the Group. At 31 December 2012, all assets and liabilities of the Group and Company were denominated in sterling.

(b) Credit risk

As the Group had no turnover during the period, there is no significant concentration of credit risk. The Group does not

have written credit risk management policies or guidelines

The Group's cash is held in reputable banks. The carrying amount of these financial assets represent the maximum credit exposure.

(c) Liquidity risks

The Group currently has no operational revenue streams. Operational cash flow represents the ongoing exploration and administration costs. The Group manages its liquidity requirements by the use of long and short term cash flow forecasts.

The Group's policy is to ensure facilities are available as required and to issue share capital in accordance with long and short term cash flow forecasts. The Group currently has no undrawn facilities as at 31 December 2012. The Group actively manages its working finance to ensure the Group has sufficient funds for operations and planned expansion.

The Group's financial liabilities are primarily accruals. All amounts are due for payment in accordance with agreed settlement terms with suppliers or stating deadlines within one year.

(d) Cash flow and fair value interest rate risks

The Group has no interest-bearing liabilities. Interest rates on bank deposits are based on the relevant national inter-bank offered rates. The Group has no fixed interest rate assets.

The main financial risks for the Group are given on page 11 in the Directors' Report.

At 31 December 2012, the currency and interest rate profile of the financial assets and liabilities of the Group was as follows:

	2012 £	2011 £
Financial assets - Group		
GBP – cash and cash equivalents	349,618	1,219,947
Financial assets - Company		
GBP – cash and cash equivalents	349,462	1,219,792

A decrease of 1% on the interest rates offered by the banks will result in a decrease in interest receivable of £350 (2011 £1,220) for the Group and £349 (2011 £1,220) for the Company.

(e) Capital risk management

The Group defines capital as the total equity of the group. The Group manages its capital to ensure that entities within the Group will be able to continue individually as going concerns, while maximising the return to shareholders through the optimisation of debt and equity balances. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust its capital structure, the Group may adjust the amount of dividends to shareholders, issue new shares or return capital to shareholders, and raise debt or sell assets to reduce debt.

16. SHARE CAPITAL

a) Share capital

The Company has one class of ordinary shares which carry no right to fixed income nor have any preferences or restrictions attached.

Issued and fully paid:

	2012 £	2011 £
194,692,183 Ordinary shares of 0.01p each	<u>1,946,922</u>	<u>1,656,922</u>

b) Share issues during the year

	Number of shares	Share Capital £	Share premium £	Total £
At 1 January 2012	165,692,183	1,656,922	2,722,508	4,379,430
On 4 July 2012	29,000,000	290,000	1,450,000	1,740,000
Less share issue costs	-	-	(20,000)	(20,000)
At 31 December 2012	<u>194,692,183</u>	<u>1,946,922</u>	<u>4,152,508</u>	<u>6,099,430</u>

On 4 July 2012, pursuant to an Exchange Agreement with Praetorian Resources Limited (Praetorian), the Company issued 18,333,333 ordinary shares of 1p each at a premium of 5p per share to Praetorian in exchange for 2,200,000 Praetorian ordinary shares of nil par value and pursuant to a Subscription Agreement with Praetorian, the Company issued 10,666,667 ordinary shares of 1p each for cash at a premium of 5p per share

17. TRANSACTIONS WITH RELATED PARTIES

NA Steinberg, part-time Finance Director, is a partner in Munslovs LLP, a firm of Chartered Certified Accountants. That firm charged fees of £42,500 (2011 £60,000) excluding VAT to the Group in respect of professional services in the period. Of the fees charged, £10,000 (2011 £10,000) was outstanding at year end and has been included in trade and other payables. The fees paid included £5,000 (2011 £35,000) excluding VAT of fees which have been included in share issue costs.

Payments of £35,882 (2011 £30,551) in respect of exploration costs were made to Irus Consulting Limited, a company in which a director of the company, J P Barry is a director and shareholder.

Payments of £15,000 (2011 £15,000) in respect of company secretarial costs were made to Pearl Capital Partners Limited, a company in which a director of the company, D B Pearl is a director and shareholder.

18. EVENTS SINCE THE YEAR END

On 22 January 2013, the company raised additional working capital of £1,250,000 through a placing of 41,666,667 new ordinary shares with institutional and other investors at a price of 3p each. Following this placement the company's issued share capital is increased to 236,358,850 ordinary shares of 0.01p.

SOVEREIGN MINES OF AFRICA PLC

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