# KEFI Minerals Plc
# Annual Report 2010

***Exploring for gold and copper in Saudi Arabia and Turkey***

Slag dumps from ancient copper mining within G&M Joint Venture application area, Saudi Arabia

# Contents



***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 20 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.*

***Cover photo****–Taurus Mountains, Eastern Turkey.*

# Chairman's Letter

Dear Fellow Shareholder

KEFI Minerals is committed to discovery of significant mineral deposits in the Kingdom of Saudi Arabia, Turkey and the region. It conducts early stage prospecting programs which are high risk and offer the potential for high returns. Most of the projects assessed by the Company do not survive our evaluation process and the challenge is to deliver the desired overall outcomes with the projects that do succeed.

The Company's strategy is very cost-effective with all our highly dedicated full-time personnel focused on activities in the field. Support functions are carried out by others on a contract basis so that the Company optimises the effectiveness of each dollar expended.

At this formative early stage, KEFI Minerals is particularly reliant on the support of its shareholders and few key officers. In this regard I would pay special recognition to the dedication and contribution of our Managing Director Jeff Rayner. Jeff is a highly effective exploration leader who brings 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.

KEFI Minerals has also stretched its dollar further by working within carefully structured strategic alliances with major corporations designed around the task at hand. We therefore also thank our joint venturers ARTAR in Saudi Arabia and Centerra in Turkey.

I look forward to seeing some of you at the Annual General Meeting on 29 June 2011 in London.

Harry Anagnostaras-Adams

Chairman

1 June 2011

# Managing Director's Report

Dear Fellow Shareholder,

KEFI Minerals Plc has continued to apply its proven exploration strategy to its projects in Turkey and in the Kingdom of Saudi Arabia. Targets at various prospects have been tested cost effectively and enabled the Company to move onto other prospects with a greater chance of exploration success.

The Company's current projects and licence applications are located in:

> Turkey, a country in which a number of world-class gold and base metals deposits have been discovered during the past two decades; and

> Saudi Arabia, a country with a long history of mining that dates back over 5,000 years and set for a resurgence under modernised mining laws that encourage investment.

Our team is very keen to commence field exploration in Saudi Arabia as soon as Exploration Licences are granted, which has unfortunately taken longer than expected.

## *Exploration Strategy*

Our reputation has been built on treating safety, environment and community relations as a priority at all times.

KEFI Minerals' exploration strategy remains the same and is based on the following concepts:

> Combining strong international and local knowledge in exploration models and techniques;

> Selecting areas within prospective stratigraphic and structural settings with a high potential for gold mineralisation in particular;

> Exploring projects as a package rather than individual isolated prospects;

> Rapidly identifying, prioritising and assessing targets; and

> Creating effective working relationships and further developing knowledge using an established local team.

**Managing Director Jeff Rayner, consultant John Nethery and geologist Gokhan Kellecioglu on reconnaissance in Saudi Arabia**

The object of this strategy is to add value for shareholders by:

- Advancing our projects to resource stage through drilling;
- Targeting resources of >1 million ounces of gold or copper equivalent through exploration; and
- Identifying and fostering high-quality joint venture opportunities, with both international and local partners, in order to source capital and spread financing risks.

KEFI Minerals is a small, dynamic company that has the flexibility to move quickly and become an early entrant in countries that are becoming attractive for mining investment and are suitably prospective.

## *Strategic Alliances*

KEFI Minerals leverages its technical expertise and available funding by entering into strategic alliances.

KEFI Minerals has been recognised within the industry for its technical abilities and the quality of its projects. This has led to the formation of joint ventures in Turkey with a wholly-owned subsidiary of Centerra Gold Inc. ("Centerra Gold") and in Saudi Arabia with the Abdul Rahman Saad Al-Rashid & Sons Company Limited ("ARTAR"). These partnerships have allowed the Company to:

- expand its exploration activities in both countries, whilst reducing its financial exposure; and
- retain the flexibility to be able to rapidly assess other opportunities in the region.

Centerra Gold funded drilling programmes and other exploration activities at the Artvin and Bakir Tepe Joint Ventures in Turkey. Following assessment of results from these programmes, Centerra Gold has elected not to continue funding exploration at these projects and full ownership has reverted to KEFI Minerals. These joint ventures with Centerra Gold enabled both parties to rapidly evaluate quality prospects while sharing the financial risk.

The primary target of the alliance with ARTAR is the discovery and development of >1 million ounce gold deposits in the under-explored Precambrian Arabian Shield of Saudi

Arabia. KEFI Minerals is the operating partner with a 40% interest with ARTAR holding the remaining 60% and providing local support services.

Technical, commercial and administrative systems are provided to KEFI Minerals by EMED Mining Public Limited ("EMED Mining") on a cost-recovery basis, enabling KEFI Minerals to minimise overheads and focus its efforts on discovering economic mineral deposits.

KEFI Minerals is continuing to assess other opportunities in the region so that our knowledge can be applied to further prospective areas with similar geology. These opportunities are likely to be undertaken with strategic partners, particularly those that we already have strong relationships with.

## *Funding*

The equity funding provided by shareholders since the Company's admission to AIM in December 2006 is much appreciated. Additional funding provided by joint-venture partners has enabled KEFI Minerals to leverage the equity from our shareholders.

EMED Mining remains a supportive shareholder and retains a 19% interest in KEFI Minerals. EMED Mining is owned primarily by a range of mining industry investment specialists, from Australia, Canada, South Africa, United States and the United Kingdom.

KEFI Minerals completed private placements that raised £665,000 at 1.6p per share in January 2010 and £625,000 1.25p per share in October 2010.

The Company's share price strengthened considerably in late 2010 and a further placement was completed in February 2011 that raised £1,300,000 at 5p per share.

KEFI Minerals' share price has increased substantially over the past year to currently being more than 7p per share, with the Company's market capitalisation now approximately £20 million.

## *Outlook*

Turkey and Saudi Arabia are both under-explored countries with excellent potential for discovery of major gold and copper mines. We will continue to progress effective exploration programmes that aim to fast-track gold discovery and eventual development of new mines.

Our team continues to strive towards these objectives with an appropriate focus on the trade-off between costs and the potential returns generated if our efforts are successful.

During 2011, our priorities are to:

> obtain approvals for our Exploration Licences in Saudi Arabia and commence fieldwork;

> continue to assess our projects in Turkey; and

> generate new projects in Saudi Arabia, Turkey and neighbouring regions.

KEFI Minerals' prospects in Saudi Arabia are particularly exciting as many areas we have applied for contain historical workings, some contain previous trenching and shallow drilling with encouraging results from past exploration conducted by the USGS and BRGM. There is an excellent chance of rapid success once these Exploration Licences are granted and field activities can proceed.

Our exploration portfolio, combined with the very positive outlook for gold and copper prices, provide an exciting opportunity to create exceptional value for shareholders.

**Jeffrey Rayner**

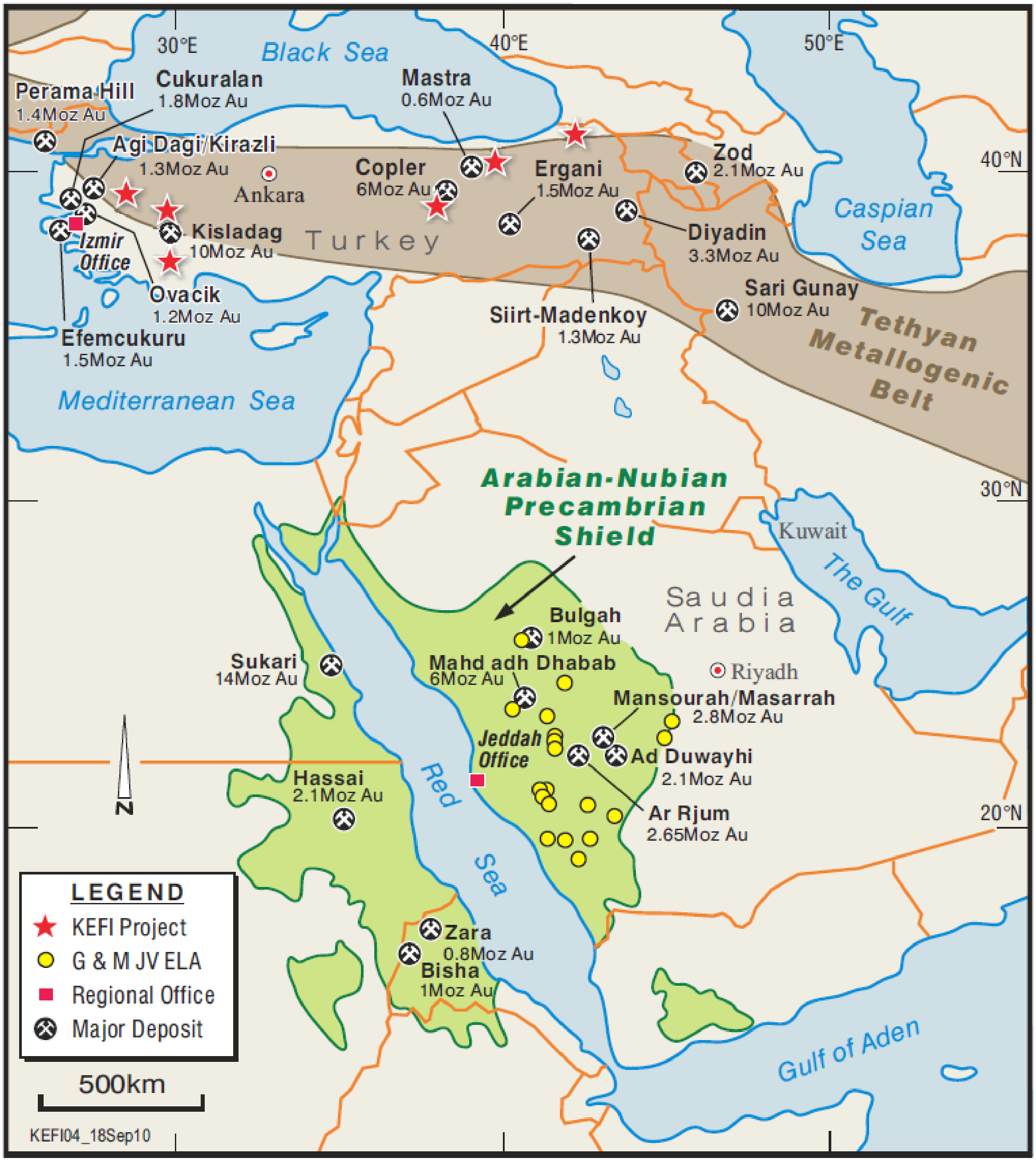
***Managing Director***

# Projects - Overview

The Company's current projects and licence applications are located in:

> Saudi Arabia, a country with a long history of mining that dates back over 5,000 years and set for a resurgence under modernised mining laws that encourage investment; and

> Turkey, a country in which a number of world-class gold and base metals deposits have been discovered during the past two decades.




Major gold deposits in the Arabian-Nubian Shield include Centamin's Sukari Mine (>14 million ounces), Saudi Arabian Mining Company's ("Ma'aden") Mahd adh Dhahab Mine (>6 million ounces) and various recent greenfields discoveriesby Ma'aden, which total more than eight million ounces. Ma'aden has five operating gold mines in Saudi Arabia.

Major gold mines in Turkey include Eldorado Gold's Kisladag Mine (>10 million ounces), Alacer Gold's Copler Mine (>6 million ounces) and Koza Altin's Ovacik Mine (>1 million ounces).

# Projects - Saudi Arabia

Saudi Arabia's highly prospective Precambrian Arabian Shield clearly has very good potential to yield further discoveries of significant gold and base metal deposits.

KEFI Minerals undertakes all of its activities in the Kingdom of Saudi Arabia through the Gold & Minerals ("G&M") Joint Venture with ARTAR, which was formalised in early 2010. KEFI Minerals is the operating partner with a 40%interest with ARTAR holding the remaining 60%.

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

All exploration-related activities in Saudi Arabia are undertaken by KEFI Minerals personnel on behalf of the G&M Joint Venture.

The G&M Joint Venture has received approval from the Deputy Ministry for Mineral Resources ("DMMR") to conduct country-wide field reconnaissance through the issue of a Reconnaissance Licence.

## *Exploration Approach in Saudi Arabia*

KEFI Minerals' geologists have spent significant time researching and evaluating numerous prospects in the Precambrian Arabian Shield.

Geologists Doug Cook and Gokhan Kellecioglu in Saudi Arabia

The G&M Joint Venture partners have created a substantial GIS database comprising information on regional and prospect geology, geophysics, geochemistry, topography, remote sensing, alteration studies, structural interpretation, mineral occurrences, and previous exploration.

This database, which forms the basis for our generative studies, when combined with field reconnaissance of the prospective areas identified, has enabled G&M to rapidly assess large areas of the Arabian Shield for the potential to host major mineral deposits.

Once field reconnaissance has confirmed the potential of a target area, then the G&M Joint Venture lodges an Exploration Licence Application ("ELA") with the DMMR.

The Arabian Shield is vast and many prospective areas are open for pegging. Reconnaissance fieldwork is being undertaken progressively to assess these opportunities and further applications for Exploration Licences will be made where warranted.

## *Exploration Licence Applications ("ELA's") in Saudi Arabia*

The G&M Joint Venture currently has a total of 21 ELA's (covering ~2,100km$^2$) at various stages of the approvals process in Saudi Arabia.

Previous exploration, largely reconnaissance in nature, has revealed promising indications of economic precious and base metals mineralisation in our exploration licence application areas.

The G&M Joint Venture commenced lodging its initial ELA's in late 2008. The process has taken longer than anticipated even though regular contact has been maintained with the authorities to ensure the applications do not incur unnecessary delays.

The bar chart below provides an overview of where these applications are in the approvals process (as at April 2011).


The Company awaits the granting of its first Exploration Licence and has made significant progress in the permitting of its remaining ELA's. The DMMR has to date, completed site visits at eleven of the 21 ELA's.

In late 2010, one ELA had reached the final stages of the approval process. The Company was advised in early 2011 of minor changes to the requirements for the Exploration Technical Report, which accompanies the submission of each ELA. This change delayed approval and the modified report has subsequently been lodged with the DMMR.

**"Imara" site visit to a G&M ELA area. The Imara inspection is coordinated by the DMMR and includes up to 11 other Government Agencies and Committees'. Approval from all departments is required to further progress the licence application.**

Though there are no guarantees on timing, advice to the Company remains that this initial ELA will be approved soon and the granting of several further ELA's will follow within a few months.

The Company expects to be progressing work on the ground immediately upon granting of the first Exploration Licence. Planned initial work includes geophysical surveys to identify drill targets, with the aim of commencing drilling as soon as practical.

## *Geology of ELA's in Saudi Arabia*

Gold and base metal mineralisation the Arabian Shield is dominantly related to a number of geological events in late Proterozoic times. Styles of mineralisation include:

1. Volcanic-hosted massive sulphide ("VHMS") copper-gold-polymetallic deposits;
2. Epithermal gold–polymetallic deposits;
3. Mesothermal quartz vein deposits; and
4. Intrusion-related (eg- porphyry) gold deposits.

The ELA's lodged by KEFI Minerals are prospective for one or more of the above styles of mineralisation. Examples of this prospectivity include:

- All of the ELA's contain historic workings for gold and/or copper with visible gold in some veins.
- Some ELA's have limited drilling carried out by the United States Geological Survey ("USGS") or the French Bureau de Recherches Géologiques et Minières ("BRGM"). Encouraging gold mineralisation has been intercepted in a number of drill holes and trenches completed during this previous work.
- Three separate ELA's cover 8km strike length of gold-bearing gossans developed as a product of weathering on polymetallic VHMS deposits. These gossans that have never been drilled and have potential for shallow open-cut gold mines and larger VHMS copper-polymetallic deposits down dip.

**Gossan with ruins of ancient mining camp in Saudi Arabia**

Generative studies continue to be carried out in order to identify further areas of interest within Saudi Arabia. The Arabian Shield is vast and many prospective areas are open for pegging. Reconnaissance fieldwork will be progressively undertaken to assess these opportunities and further applications for Exploration Licences will be made where warranted.

## *Background on Mineral Exploration in Saudi Arabia*

The general tempo of exploration activity in Saudi Arabia has increased over the past several years, driven by the recognition that 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.

Exploration Licences (up to 100km$^2$) are issued for five years and renewable for a further five years, with Mining Licences (up to 50km$^2$) issued for up to 50 years.

The Saudi Arabian DMMR commenced gold exploration in the 1970s, following a rise in value of the metal. The USGS and BRGM were commissioned to document and evaluate the mineral occurrences over a 25 year period from the 1970s to mid-1990s. Over 5,000 historic mines and occurrences were discovered. Limited work was carried out on each prospect and up to 1994, only 51 of these prospects were drill tested.

Reconnaissance exploration in Saudi Arabia

Exploration companies from the UK, Australia, Canada and Oman, plus local Saudi companies, have recently applied for exploration licences for precious and base metals. Some of the key aspects of the new Mining Investment Code, which are attracting investment in the exploration and mining industry in Saudi Arabia, are:

- 20% corporate tax rate;
- no mineral royalties;
- all commodities are available to all groups, including 100% foreign-owned companies;
- security of tenure through all stages of exploration and development;
- no restrictions on foreign exchange;
- no restrictions on repatriation of capital and profits;
- accelerated depreciation; and
- exemption from import duties on capital items imported for mining projects.

One of the main reasons for the modernisation for the Mining Investment Code was to attract foreign investment and mining technology to develop a viable mining industry so as to create job opportunities for the large number of young, unemployed, Saudi nationals.

**Deputy Chairman Professor Ian Plimer giving a one-day course on the Broken Hill zinc-lead deposit to Ma'aden geologists in Jeddah**

The G&M Joint Venture is committed to providing employment opportunities for Saudi geoscientists and for the local persons of the communities in which we work.

Further attractions of mining in Saudi Arabia include:

> Highly competitive energy costs;
> Developed infrastructure, roads and ports;
> Member of the World Trade Organisation since 2005;
> Significant in-country construction expertise; and
> Favourable investment location - ranked 11th in World Bank's "Ease of Doing Business" Index for 2010.

Several foreign companies with Saudi partners have recently advanced their projects in Saudi Arabia to the mine development stage.

During 2010, development continued at the Al Masane Mine which will produce copper, zinc, nickel, gold, and silver from late 2011. Al Masane is 41% owned by the American company Arabian American Development Company, with the remainder owned by Saudi investors.

In May 2010, a Mining Licence was granted for the Jabal Sayid Mine which will produce copper and gold. Jabal Sayid was 50% owned by the Australian company Citadel Resources when the Mining Licence was granted. Citadel subsequently increased its ownership to 100% prior to being acquired by Equinox Resources in late 2010 via an offer that valued Citadel at about $1.2 billion. Production from Jabal Sayid is expected to commence in early 2012.

In December 2010, a Mining Licence was granted for the Khnaiguiyah Zinc Copper Project, which is a 50:50% joint venture between Australian company Alara Resources Limited and Saudi Arabian company United Arabian Mining Company ("Managem"). A Bankable Feasibility Study is being undertaken on Khnaiguiyah during 2011.

# Projects -Turkey

In Turkey, KEFI Minerals has several exploration projects at various stages of evaluation:

> Artvin in northeast Turkey is prospective for both volcanic-hosted massive sulphide and porphyry copper style deposits;

> Bakir Tepe in southwestern Turkey is prospective for Cyprus-style VHMS copper-gold deposits.

> Derinin Tepe in western Turkey is prospective for low-sulphidation, vein-style, epithermal gold-silver mineralisation.

> Gumushane in eastern Turkey contains areas with extensive hydrothermal alteration, as well as coincident areas of interest identified through interpretation of Aster data.

> Hasancelebi in central Turkey is prospective for high-sulphidation epithermal gold mineralisation and Iron-Oxide Copper-Gold ("IOCG") mineralisation.

> Muratdag in the Western Anatolia Region is prospective for Carlin-style epithermal gold mineralisation.

In April 2010, the Yatik Project in Turkey was sold for a net cash consideration of US$150,000 and a 2.5% Net Smelter Return royalty. The purchaser owns the operating gold mine and plant at Ovacik, and has demonstrated that it can successfully develop new gold mines in the Western Anatolia region of Turkey. It also owns the majority of the Yatik vein and is the logical company to continue the exploration and potentially develop a mine at Yatik

In March 2011, KEFI Minerals executed a heads of agreement to sell the Company's Derinin Tepe (also known as Kizilcukur), Muratdag and Yatik West projects in western Turkey to Ariana Resources plc. The sale consideration includes KEFI Minerals retaining a 2% Net Smelter Royalty on all future mineral production from these licences.

The disposal of these projects reflect our approach of rapidly assessing projects and turning over the exploration portfolio in order to maximise the likelihood of discovering a major ore body.

**Geologists Doug Cook and Ozgur Turkekul mapping in Turkey**

## *Exploration Approach in Turkey*

All exploration-related activities in Turkey are undertaken by the Company's wholly-owned Turkish subsidiary, Dogu Akdeniz Mineralleri San ve Tic. Ltd. Sti. and are managed from a head office located in Izmir, western Turkey.

KEFI Minerals owns an extensive proprietary exploration database, which contains information regarding approximately 100 prospective sites in Turkey. 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. KEFI Minerals' database thus provides a competitive advantage in identifying prospective areas for project generation in Turkey.

KEFI Minerals also encourages local prospectors and miners to contact us with proposals and we aim to respond to them promptly and fairly. Our extensive database and experienced exploration team enables us to rapidly filter and evaluate exploration properties that are offered to us as well as to assess tenements that have been relinquished by other explorers.

## *Artvin Project in Turkey*

The Artvin Project comprises 15 Exploration Licences (totalling 254km$^2$) located in the Eastern Pontide Belt in northeastern Turkey. The Eastern Pontide Belt is a major metallogenic province near the eastern Black Sea coastal region and is considered prospective for VHMS deposits, porphyry copper-gold deposits, as well as epithermal gold-silver mineralisation.

During 2008 and 2009, KEFI Minerals drill tested the Yanikli Prospect at Artvin as well as undertaking surface geochemical sampling, geophysical surveys and geological mapping.

In July 2010, Centerra advised KEFI Minerals of its intention to withdraw from the Artvin Joint Venture. The Artvin Joint Venture was formed in 2008 and Centerra was earning into the joint venture by funding drilling programmes and other exploration expenditure since that time. Full ownership of the Artvin Project has reverted to KEFI Minerals.

KEFI Minerals is evaluating the potential of the Artvin Project prior to committing to another drilling programme.

General Manager Omer Celenk at the Artvin Project

## *Bakir Tepe Project inTurkey*

The Bakir Tepe Project comprises seven Exploration Licences (totalling $78km^2$) in the Denizli and Burdur Provinces of western Turkey.

Bakir Tepe is located within the Lycian Ophiolite Complex, which forms part of the western Taurides Ophiolite Belt in southwestern Turkey. The Lycian Ophiolite Complex is known for its chrome and manganese deposits. KEFI Minerals is the first company to apply modern exploration methods to the search for Cyprus-style copper-gold VHMS deposits in this part of Turkey.

A diamond drilling programme commenced at the Bakir Tepe Project in late December 2009.The drill holes primarily targeted an induced polarisation (“IP”) chargeability anomaly located in a stratigraphic position classical for hosting conductive VHMS ore deposits and also down-dip of mineralisation identified at surface. Rock chip sampling returned assays up to 3.6% copper, 4.6g/t gold, and 67g/t silver. Geological mapping identified possible pillow basalts beneath a sequence of haematitic, cherty mudstones and radiolarian cherts. The potential position for a VHMS deposit, down dip of the surficial mineralisation, was interpreted to be at the interface between the pillow basalt unit and the overlying sediments, and/or within the upper levels of the pillow basalt unit itself.


Geologists reviewing Bakir Tepe IP results

A total of four diamond holes (KBTD01-04) were completed for an aggregate of 1,078m of core. Drill hole KBT01, drilled in the central part of the main IP anomaly, was stopped short before intersecting the interpreted centre of the IP anomaly at 161m due to adverse ground conditions. No significant alteration or sulphide mineralisation was encountered. The analytical results from the core samples submitted for assay have failed to return significant levels of gold, silver or base metal anomalism. The maximum copper assay was 0.3m at 1,565ppm copper from 173m.

The western half of the 800m long IP anomaly remains untested by drilling and the drill results are being reviewed to plan future work at Bakir Tepe.

The Bakir Tepe Joint Venture was formed with Centerra Gold in 2009. Centerra was earning into the joint venture by funding exploration expenditure since that time. However, Centerra did not meet the minimum expenditure of US$350,000 during the first year the joint venture so full ownership of the Bakir Tepe Project has reverted to KEFI Minerals.

### *Project Generation in Turkey*

During 2010, KEFI Minerals continued to pursue a regional project generation and acquisition programme in Turkey that is targeting >1 million ounce gold or gold-copper equivalent deposits. The Company's personnel allocated a significant amount of their working time towards the identification of prospective ground through conceptual studies and also towards the evaluation of properties that became available for joint venture and/or acquisition.

**Field visit to evaluate prospect in Turkey**

The principal deposit types being explored for are low-sulphidation epithermal gold-silver, porphyry-style copper-gold, and Cyprus-type copper-gold, associated with Tertiary and Cretaceous arcs within the Tethyan-Eurasian Metallogenic Belt that extends from the Balkans in the west to Iran and Pakistan in the east. The Tethyan-Eurasian Metallogenic Belt hosts a number of significant gold and base metals deposits and has a current mineral endowment of around 89 million ounces of gold and 34 million tonnes of copper metal.

Our geologists identified many opportunities during 2010 and visited more than 30 of these prospects during the year. None of the opportunities reviewed this year met our exploration and development criteria, however this work will be ongoing in an effort to secure the highest quality tenure and projects, and to maximise our chances of exploration success.

# 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 theEarth's surface and in the temperature range of 50 to 200 degrees Celsius, occurring mainly as veins |
| g/t | Grams per tonne |
| G&M Joint Venture | Gold and Minerals Joint Venture, owned 60% by ARTAR and 40% by KEFI Minerals |
| 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 |
| 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 2010

## KEFI MINERALS PLC

## REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
## Year ended 31 December 2010

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## KEFI MINERALS PLC

## BOARD OF DIRECTORS, OFFICERS AND ADVISERS

| | |
|---|---|
| **Board of Directors:** | Aristidis Eleftherios (Harry) Anagnostaras-Adams *Non Executive – Chairman*<br>Ian Rutherford Plimer *Non executive Director – Deputy Chairman*<br>Jeffrey Guy Rayner *Managing Director*<br>John Edward Leach *Finance Director* |
| **Company Secretary:** | Cargil Management Services Limited<br>22, Melton Street<br>London<br>NW1 2WB<br>United Kingdom |
| **Auditors:** | Moore Stephens LLP<br>150, Aldersgate Street<br>London<br>EC1A 4AB<br>United Kingdom |
| **Registered Office:** | 27/28, Eastcastle Street<br>London<br>W1W 8DH<br>United Kingdom |
| **Bankers:** | Allied Irish Bank (GB)<br>Mayfair Branch<br>10, Berkeley Square<br>London<br>W1J 6AA<br>United Kingdom |
| **Solicitors:** | Field Fisher Waterhouse<br>35, Vine Street<br>London<br>EC3N 2AA<br>United Kingdom |
| **Share Registrar:** | Share Registrars Limited<br>Registered Office: 27/28 Eastcastle Street, London W1W 8DH<br>United Kingdom<br><br>Registered in England & Wales No 4715037 |
| **Nominated Advisor:** | Fox Davies Capital Limited<br>1st floor,<br>Whitefriars House<br>6, Carmelite Street<br>London<br>EC4Y 0BS<br>United Kingdom |

# 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 2010.

**Incorporation and Principal activity**

KEFI Minerals plc was formed 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. EMED Mining retains a 18.50% shareholding and first right of refusal to any project joint venture.

During 2010, KEFI Minerals continued its exploration efforts in Turkey and the joint venture in the Kingdom of Saudi Arabia (the "G&M Joint Venture").

**Review of Operations**

In Turkey, KEFI Minerals has licences covering 454km$^2$ in area and the four most advanced projects are:

- Artvin in northeast Turkey, which is prospective for both volcanic-hosted massive sulphide and porphyry copper style deposits Full ownership of the Artvin Project in Turkey will revert to KEFI Minerals following the withdrawal of Centerra Gold Inc. ("Centerra") from the Artvin Joint Venture.
- Bakir Tepe in southwestern Turkey (a joint venture with Centerra Gold), which is prospective for Cyprus-style volcanic-hosted massive sulphide ("VHMS") copper-gold deposits;
- Derinin Tepe in western Turkey, which is prospective for low-sulphidation, vein-style, epithermal gold-silver mineralisation; and
- The Company's Gumushane, Muratdag and Hasancelebi Projects in Turkey are at an earlier stage of evaluation.

In the Kingdom of Saudi Arabia, KEFI Minerals has a minerals exploration joint venture (Gold & Minerals LLc "G&M") 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% interest and the joint venture's primary target is the discovery and development of a >1 million ounce gold deposit in the under-explored Precambrian Shield in Saudi Arabia.

KEFI Minerals have lodged a total of 21 Exploration Licence Applications ("ELAs") in Saudi Arabia that cover an area of approximately 2,100 sq km. The ELAs continue to advance through the approval process despite a number of minor delays. The delays are predominantly due to a number of national holidays in Saudi Arabia in the last quarter of 2010 and are also due to a recent Government request for minor changes to KEFI's Exploration Technical Report. The Technical Report outlines the proposed five year work programme on each ELA submission. The Company cannot address these changes until a formal request has been received from the relevant department, but the directors understand that once the changes are made and approved the Licence will be issued.

During the year the Yatik Project in Turkey was sold for a net cash consideration of US$150,000 and a 2.5% Net Smelter Return royalty.

Key Performance Indicators for the Group are not considered relevant for the year ended 31 December 2010 because the Group is still in the exploration phase of its activities. However, careful monitoring has been carried out in respect of cash management.

**Results**

As at 31 December 2010, KEFI Minerals had a net working capital of GBP625,000 and the Company's market capitalisation was GBP21.7 million. At year end the Group had equity of GBP738,000.

During the year 2010, KEFI Minerals has incurred exploration expenditure of GBP247,000 from operations and an operating loss of GBP630,000.

The Company made several successful placements during the year raising GBP1.3 million as follows:

| **Issued** | **GBP'000** |
|---|---|
| 13 January 2010 at GBP0.016 | 515 |
| 22 January 2010 at GBP0.016 | 149 |
| 20 July 2010 at GBP0.0125 | 5 |
| 30 July 2010 at GBP0.0125 | 10 |
| 19 October 2010 at GBP0.0125 | 625 |
| | 1,304 |

All exploration expenditure is written off when incurred pending Directors' decision to commence project development. This policy is a major factor in KEFI Minerals recording a net loss for the year of GBP702,000:

| | **2010 GBP'000** | 2009 GBP'000 |
|---|---|---|
| Exploration expenditure | **(247)** | (203) |
| Administrative expenses | **(604)** | (677) |
| Share-based payments | **(16)** | (94) |
| Share of loss from jointly controlled entity | **(230)** | (329) |
| Other income | **153** | 389 |
| Negative goodwill | **314** | - |
| Foreign exchange loss | **(53)** | (46) |
| Finance cost | **(4)** | (4) |
| Tax | **(15)** | - |
| Loss for the year | **(702)** | (964) |

The Group's results for the year are set out on page 32.

**Board of Directors**

The members of the Board of Directors of the Company as at 31 December 2010 all of whom served throughout the year and at the date of this report are shown on page 21. 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.

## REPORT OF THE BOARD OF DIRECTORS (continued)

**Harry Anagnostaras-Adams**
**Non-Executive Director – Chairman**
Mr. Anagnostaras-Adams (BComm, 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, Deputy Chairman of Australian Gold Council, Executive Director of investment company Pilatus Capital Limited and General Manager of investment company Clayton Robard Limited. He was an inaugural senior investment manager in Australia for Citicorp Capital Investors Limited, manager of Australian mergers and acquisitions for Citi National Merchant Bank and a chartered accountant with PricewaterhouseCoopers.

**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-present) and was previously Professor and Head of Earth Sciences (University of Melbourne 1992-2005) and Professor and Head of Geology (University of Newcastle (1985-1991). Previously he worked in the Australian mining industry and at various universities. He is a prominent Australian geologist, has published 130 scientific papers, seven books and is a regular broadcaster. 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), Ormil Energy Ltd (ASX:OMX; plus Safety and Audit Committees) and the unlisted TNT Resources Ltd.

**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 20 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 Sardina 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 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 Canadian Institute of Chartered Accountants 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).

## REPORT OF THE BOARD OF DIRECTORS (continued)

**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 | 0.59% |
| I Plimer | 1,250,000 | 0.53% |
| J Rayner | 1,533,000 | 0.46% |
| J Leach | 1,000,000 | 0.30% |

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 |

**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 2010 is set out below:

**31 December 2010**

| | Fees/basic salary GBP'000 | Share based payments GBP'000 | 2010 Total GBP'000 |
|---|---|---|---|
| **Executive** | | | |
| J Rayner | **161** | **-** | **161** |
| **Non-Executive** | | | |
| I Plimer | **15** | **-** | **15** |
| | **176** | **-** | **176** |

31 December 2009

| | Fees/basic salary GBP'000 | Share based payments GBP'000 | 2009 Total GBP'000 |
|---|---|---|---|
| **Executive** | | | |
| J Rayner | 141 | 26 | 167 |
| J Leach (part time) | - | 9 | 9 |
| **Non-Executive** | | | |
| H Anagnostaras-Adams | - | 18 | 18 |
| I Plimer | 15 | 18 | 33 |
| | 156 | 71 | 227 |

## REPORT OF THE BOARD OF DIRECTORS (continued)

### 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 2010 were:

| Name | Number of existing Shares '000 | % of issued share capital |
|---|---|---|
| EMED Mining Public Limited | 67,332 | 20.32% |
| Barclays Share Nominees Limited | 32,364 | 9.77% |
| T D Waterhouse Nominees (Europe) Limited | 26,675 | 8.05% |
| HSDL Nominees Limited | 20,743 | 6.26% |
| Starvest Plc | 19,167 | 5.79% |
| L R Nominees Limited | 11,306 | 3.41% |
| James Capel (Nominees) Limited | 11,295 | 3.40% |

### 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 2010 were 40 (2009: 38 days) and for the Company were 50 (2009: 54 days).

### Political and charitable donations

No political or charitable donations were made during the 2010 financial year (2009: GBP Nil).

### Corporate governance

The Directors are aware of the Combined Code 2008 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.

**Board performance**

In future, the Board intends to conduct a formal process to evaluate its effectiveness and that of the Board committees and individual Directors. Each Director's performance will be appraised by the Chairman reflecting input from the other Directors: the deputy Chairman will appraise the Chairman's performance on the same basis. This evaluation process will take place annually and aims to cover board dynamics, board capability, board process, board structure, corporate governance, strategic clarity and alignment and the performance of individual Directors.

**Financial Risks**

The Group's financial risks and use of financial instruments are described in Notes 2 and 3 to the financial statements.

**Subsequent Events**

In February 2011 the company raised additional funds by the issue of 26 million shares at 5p to raise GBP1.3million.

In March 2011, KEFI Minerals executed a heads of agreement to sell the Company's Derinin Tepe (also known as Kizilcukur), Muratdag and Yatik West projects in western Turkey to Ariana Resources plc. The sale consideration includes KEFI Minerals retaining a 2% Net Smelter Royalty on all future mineral production from these licences.

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 exploration effort on Turkey and Saudi Arabia and aim to progress one or more of our projects towards production.

## REPORT OF THE BOARD OF DIRECTORS (continued)

**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**

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

**1 June 2011**

## 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 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 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 financial statements have been prepared in accordance with IFRS as adopted by the European Union;
- 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 2010 which are set out on pages 32 to 59. 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 29, 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 2010 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.

Peter Stewart, *Senior Statutory Auditor*

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

**2 June 2011**

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## Year ended 31 December 2010

| | Notes | 2010 GBP'000 | 2009 GBP'000 |
|---|---|---|---|
| **Revenue** | | **-** | - |
| Exploration costs | | **(247)** | (203) |
| **Gross loss** | | **(247)** | (203) |
| Administrative expenses | | **(604)** | (677) |
| Share-based payments | 17 | **(16)** | (94) |
| Share of loss from jointly controlled entity | 18 | **(230)** | (329) |
| Other income | 4 | **153** | 389 |
| Negative goodwill | 13 | **314** | - |
| **Operating loss** | 5 | **(630)** | (914) |
| Foreign exchange loss | | **(53)** | (46) |
| Finance costs | 7 | **(4)** | (4) |
| **Loss before tax** | | **(687)** | (964) |
| Tax | 9 | **(15)** | - |
| **Loss for the year** | | **(702)** | (964) |
| | | | |
| **Other comprehensive income:** | | | |
| Exchange differences on translating foreign operations | | **44** | 41 |
| | | | |
| **Total comprehensive loss for the year** | | **(658)** | (923) |
| | | | |
| **Loss per share (GBP)** | 10 | **0.01** | 0.01 |

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 GBP0.6 million (2009: GBP2.3 million) has been included in the financial statements of the parent company.

## KEFI MINERALS PLC

## STATEMENTS OF FINANCIAL POSITION
## 31 December 2010

| | Notes | The Group 2010 GBP'000 | The Company 2010 GBP'000 | The Group 2009 GBP'000 | The Company 2009 GBP'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | **27** | **-** | 42 | - |
| Intangible assets | 12 | **-** | **-** | - | - |
| Fixed asset investments | 13 | **181** | **182** | 2 | 2 |
| | | **208** | **182** | 44 | 2 |
| **Current assets** | | | | | |
| Trade and other receivables | 14 | **206** | **442** | 64 | 205 |
| Cash and cash equivalents | 15 | **539** | **530** | 322 | 319 |
| | | **745** | **972** | 386 | 524 |
| **Total assets** | | **953** | **1,154** | 430 | 526 |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | 16 | **3,311** | **3,311** | 2,382 | 2,382 |
| Share premium | 16 | **1,697** | **1,697** | 1,413 | 1,413 |
| Share options reserve | 17 | **396** | **396** | 382 | 382 |
| Foreign exchange reserve | | **(207)** | **-** | (251) | - |
| Accumulated losses | | **(4,459)** | **(4,344)** | (3,773) | (3,743) |
| **Total equity** | | **738** | **1,060** | 153 | 434 |
| | | | | | |
| **Non-current liabilities** | | | | | |
| Share of loss in joint ventures | 18 | **95** | **-** | 150 | - |
| | | **95** | **-** | 150 | - |
| **Current liabilities** | | | | | |
| Trade and other payables | 19 | **120** | **94** | 127 | 92 |
| | | **120** | **94** | 127 | 92 |
| | | | | | |
| **Total liabilities** | | **215** | **94** | 277 | 92 |
| | | | | | |
| **Total equity and liabilities** | | **953** | **1,154** | 430 | 526 |

On 1 June 2011, the Board of Directors of KEFI Minerals plc authorized these financial statements for issue.

Jeffrey Guy Rayner
Managing Director

**Company number: 5976748**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### Year ended 31 December 2010

| | Share capital GBP'000 | Share premium GBP'000 | Share options reserve GBP'000 | Accumulated losses GBP'000 | Foreign exchange reserve GBP'000 | Total GBP'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2009** | **1,296** | **1,347** | **256** | **(2,824)** | **(292)** | **(217)** |
| Loss for the year | - | - | - | (964) | - | (964) |
| Other comprehensive income | - | - | - | - | 41 | 41 |
| Recognition of share based payments | - | - | 141 | - | - | 141 |
| Exercise of warrants | | | (15) | 15 | | - |
| Issue of share capital | 1,086 | 121 | - | - | - | 1,207 |
| Share issue costs | - | (55) | - | - | - | (55) |
| **At 31 December 2009** | **2,382** | **1,413** | **382** | **(3,773)** | **(251)** | **153** |
| Loss for the year | **-** | **-** | **-** | **(702)** | **-** | **(702)** |
| Other comprehensive income | **-** | **-** | **-** | **-** | **44** | **44** |
| Recognition of share based payments | **-** | **-** | **30** | **-** | **-** | **30** |
| Issue of share capital | **929** | **375** | **-** | **-** | **-** | **1,304** |
| Cancellation/forfeit of options/warrants | **-** | **-** | **(16)** | **16** | **-** | **-** |
| Share issue costs | **-** | **(91)** | **-** | **-** | **-** | **(91)** |
| **At 31 December 2010** | **3,311** | **1,697** | **396** | **(4,459)** | **(207)** | **738** |

The following describes the nature and purpose of each reserve within owners' 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 allowable 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 | cumulative net gains and losses recognised on consolidation |

## COMPANY STATEMENT OF CHANGES IN EQUITY
## Year ended 31 December 2010

| | Share capital GBP'000 | Share premium GBP'000 | Share options reserve GBP'000 | Accumulated losses GBP'000 | Total GBP'000 |
|---|---|---|---|---|---|
| **At 1 January 2009** | **1,296** | **1,347** | **256** | **(1,457)** | **1,442** |
| Loss for the year | - | - | - | (2,301) | (2,301) |
| Recognition of share based payments | - | - | 141 | - | 141 |
| Exercise of warrants | - | - | (15) | 15 | - |
| Issue of share capital | 1,086 | 121 | - | - | 1,207 |
| Share issue costs | - | (55) | - | - | (55) |
| **At 31 December 2009** | **2,382** | **1,413** | **382** | **(3,743)** | **434** |
| Loss for the year | **-** | **-** | **-** | **(617)** | **(617)** |
| Recognition of share based payments | **-** | **-** | **30** | **-** | **30** |
| Issue of share capital | **929** | **375** | **-** | **-** | **1,304** |
| Cancellation/forfeit of options/warrants | **-** | **-** | **(16)** | **16** | **-** |
| Share issue costs | **-** | **(91)** | **-** | **-** | **(91)** |
| **At 31 December 2010** | **3,311** | **1,697** | **396** | **(4,344)** | **1,060** |

The following describes the nature and purpose of each reserve within owners' 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 allowable 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 2010

| | Notes | 2010<br>GBP'000 | 2009<br>GBP'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Loss before tax** | | **(687)** | (964) |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | 11 | **17** | 17 |
| Negative goodwill | | **(314)** | - |
| Share-based payments | 17 | **16** | 94 |
| Issue of warrants | 17 | **14** | 47 |
| Share of loss from jointly controlled entity | | **230** | - |
| Exchange difference on translation of subsidiaries | | **(26)** | 39 |
| | | **(750)** | (767) |
| **Changes in working capital:** | | | |
| Trade and other receivables | | **4** | 45 |
| Trade and other payables | | **(13)** | (262) |
| | | **(9)** | (217) |
| **Net cash used in operating activities** | | **(759)** | (984) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for purchase of property, plant and equipment | 11 | **(1)** | (21) |
| Acquisition of jointly controlled entity | 13 | **(181)** | (2) |
| Advances from Centerra Gold (KB) Inc. | 18 | **-** | (266) |
| Share of cash from jointly controlled entity | | **(55)** | 150 |
| **Net cash used in investing activities** | | **(237)** | (139) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of share capital | 16 | **1,304** | 1,207 |
| Listing and issue costs | 16 | **(91)** | (55) |
| **Net cash from financing activities** | | **1,213** | 1,152 |
| **Net increase in cash and cash equivalents** | | **217** | 29 |
| **Cash and cash equivalents:** | | | |
| At beginning of the year | 15 | **322** | 293 |
| At end of the year | 15 | **539** | 322 |

## KEFI MINERALS PLC

## COMPANY STATEMENT OF CASH FLOWS
## Year ended 31 December 2010

| | Notes | 2010 GBP'000 | 2009 GBP'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Loss before tax** | | **(617)** | (2,301) |
| **Adjustments for:** | | | |
| Impairment of intercompany balances | | **142** | 1,646 |
| Share-based payments | 17 | **16** | 94 |
| Issue of warrants | 17 | **14** | 47 |
| | | **(445)** | (514) |
| **Changes in working capital:** | | | |
| Trade and other receivables | | **(378)** | (200) |
| Trade and other payables | | **2** | (141) |
| | | **(376)** | (341) |
| **Net cash used in operating activities** | | **(821)** | (855) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of jointly controlled entity | | **(181)** | - |
| Advances from Centerra Gold (KB) Inc. | 18 | **-** | (266) |
| **Net cash used in investing activities** | | **(181)** | (266) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of share capital | 16 | **1,304** | 1,207 |
| Listing and issue costs | 16 | **(91)** | (55) |
| **Net cash from financing activities** | | **1,213** | 1,152 |
| **Net increase in cash and cash equivalents** | | **211** | 31 |
| **Cash and cash equivalents:** | | | |
| At beginning of the year | 15 | **319** | 288 |
| At end of the year | 15 | **530** | 319 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## Year ended 31 December 2010

### 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 are:

- 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 31st December 2010. The company and the consolidated financial statements have been prepared under the historical cost convention.

**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"). The financial statements are presented in British Pounds (GBP), which is the Group's functional and presentation currency.

**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 of loss in the statement of comprehensive income.

**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 recognised 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 from 1 January 2010 or subsequent dates of incorporation to 31 December 2010, using the equity method of accounting.

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

**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.

**Use and revision of accounting estimates**
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. Significant judgements 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' stage of operations have not yet met the criteria for capitalization of exploration costs.

**2. Accounting policies (continued)**

**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 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.

Borrowings
Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

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.

### 3. Financial risk management (continued)

**Interest rate risk (continued)**
At the reporting date the interest rate profile of interest-bearing financial instruments was:

| Variable rate instruments | **2010 GBP'000** | 2009 GBP'000 |
|---|---|---|
| Financial assets | **539** | 322 |

**Sensitivity analysis**
An increase of 100 basis points in interest rates at 31 December 2010 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.

| Variable rate instruments | **Equity 2010 GBP'000** | **Profit or Loss 2010 GBP'000** | Equity 2009 GBP'000 | Profit or Loss 2009 GBP'000 |
|---|---|---|---|---|
| Financial assets | **5** | **5** | 3 | 3 |

**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 2010 GBP'000** | **Assets 2010 GBP'000** | Liabilities 2009 GBP'000 | Assets 2009 GBP'000 |
|---|---|---|---|---|
| Euro | **18** | **4** | 1 | 2 |
| New Turkish Lira | **7** | **197** | 34 | 60 |
| American Dollar | **95** | **-** | - | - |

Sensitivity analysis
A 10% strengthening of the British Pound against the following currencies at 31 December 2010 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 2010 GBP'000** | **Profit or Loss 2010 GBP'000** | Equity 2009 GBP'000 | Profit or Loss 2009 GBP'000 |
|---|---|---|---|---|
| Euro | **1** | **1** | - | - |
| New Turkish Lira | **(19)** | **(19)** | (3) | (3) |
| American Dollar | **10** | **10** | - | - |

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

**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.

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.

| **31 December 20010** | **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** |
|---|---|---|---|---|---|---|---|
| Trade and other payables | **120** | **120** | **120** | **-** | **-** | **-** | **-** |
| Share of loss in joint ventures (Note 18) | **95** | **-** | **-** | **-** | **-** | **-** | **-** |
| | **215** | **120** | **120** | | | | |
| 31 December 2009 | | | | | | | |
| Trade and other payables | 127 | 127 | 127 | - | - | - | - |
| Share of loss in joint ventures (Note 18) | 150 | - | - | - | - | - | - |
| | 277 | 127 | 127 | - | - | - | - |

**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 GBP539,000 (2009: GBP322,000) and equity attributable to equity holders of the parent, comprising issued capital of GBP3,311,000 (2009: GBP2,382,000), reserves of GBP1,886,000 (2009: GBP1,544,000) and accumulated losses of GBP4,459,000 (2009: GBP3,773,000). 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** | |
|---|---|---|---|---|
| | **2010 GBP'000** | 2009 GBP'000 | **2010 GBP'000** | 2009 GBP'000 |
| **Financial assets** | | | | |
| Cash and cash equivalents (Note 15) | **539** | 322 | **539** | 322 |
| **Financial liabilities** | | | | |
| Amortised cost | | | | |
| Trade Payables | **120** | 127 | **120** | 127 |

### 3. Financial risk management (continued)

**Fair value estimation (continued)**

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

| | **2010** | 2009 |
|---|---|---|
| | **GBP'000** | GBP'000 |
| Expenses recharged to jointly controlled entities | **153** | 389 |
| | **153** | 389 |

### 5. Expenses by nature

| | **2010** | 2009 |
|---|---|---|
| | **GBP'000** | GBP'000 |
| Exploration costs | **247** | 203 |
| Depreciation of property, plant and equipment (Note 11) | **17** | 17 |
| Share of losses from jointly controlled entity | **230** | 329 |
| Issue costs of warrants | **14** | 47 |
| Share-based employee benefits (Note 17) | **16** | 94 |
| Staff costs including directors in their executive capacity | **387** | 371 |
| Auditors' remuneration - audit | **24** | 37 |
| - interim review | **7** | 8 |
| - subsidiary audit fees | **3** | 3 |
| Other expenses | **152** | 194 |
| | **1,097** | 1,303 |
| Other income (Note 4) | **(153)** | (389) |
| Negative goodwill (Note 13) | **(314)** | - |
| Total expenses | **630** | 914 |

### 6. Staff costs

| | **2010** | 2009 |
|---|---|---|
| | **GBP'000** | GBP'000 |
| Salaries | **178** | 176 |
| Social insurance costs and other funds | **33** | 39 |
| | **211** | 215 |
| Average number of employees | **8** | 7 |

### 7. Finance costs

| | **2010** | 2009 |
|---|---|---|
| | **GBP'000** | GBP'000 |
| Sundry finance costs | **4** | 4 |
| | **4** | 4 |

### 8. Business and geographical segments

**Business segments**

The Group has only one distinct business segment, being that of mineral exploration.

**Geographical segments**
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 | Saudi Arabia GBP'000 | Consolidation GBP'000 | Total GBP'000 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Operating loss | **(462)** | **(245)** | **(7)** | **-** | **-** | **(714)** |
| Financial costs | **(2)** | **(2)** | **-** | **-** | **-** | **(4)** |
| Foreign exchange loss | **(12)** | **(27)** | **(14)** | **-** | **-** | **(53)** |
| | **(476)** | **(274)** | **(21)** | **-** | **-** | **(771)** |
| Share of loss from jointly controlled entity | | | | | | **(230)** |
| Negative goodwill | | | | | | **314** |
| Loss before tax | | | | | | **(687)** |
| Tax | | | | | | **(15)** |
| Loss for the year | | | | | | **(702)** |
| Total assets | **746** | **184** | **2** | **21** | **-** | **953** |
| Total liabilities | **94** | **102** | **19** | **-** | **-** | **215** |
| Depreciation of property, plant and equipment | **-** | **15** | **-** | **2** | **-** | **17** |

| | Cyprus GBP'000 | Turkey GBP'000 | Bulgaria GBP'000 | Saudi Arabia GBP'000 | Consolidation GBP'000 | Total GBP'000 |
|---|---|---|---|---|---|---|
| 2009 | | | | | | |
| Operating loss | (2,308) | 78 | (1) | - | 1,646 | (585) |
| Financial costs | (3) | (1) | - | - | - | (4) |
| Foreign exchange profit/(loss) | 13 | (49) | (10) | - | - | (46) |
| | (2,298) | 28 | (11) | - | 1,646 | (635) |
| Share of loss from jointly controlled entity | | | | | | (329) |
| Loss for the year | | | | | | (964) |
| Total assets | 527 | 82 | 6 | 21 | (206) | 430 |
| Total liabilities | 92 | 1,522 | 163 | - | (1,500) | 277 |
| Depreciation of property, plant and equipment | - | 15 | - | 2 | - | 17 |

| **9. Tax** | **2010 GBP'000** | 2009 GBP'000 |
|---|---|---|
| Loss before tax | **(687)** | (964) |
| Tax calculated at the applicable tax rates | **(119)** | (129) |
| Tax effect of expenses not deductible for tax purposes | **73** | 97 |
| Tax effect of tax loss for the year | **40** | 40 |
| Tax effect of allowances and income not subject to tax | **(54)** | (77) |
| Tax effect on exploration expenses taxed separately | **60** | 69 |
| Tax prior years | **15** | - |
| Charge for the year | **15** | - |

The company is resident in Cyprus for tax purposes.

A deferred tax asset of GBP505,636 (2009: GBP465,350) has not been accounted for due to the uncertainty over the timing of future recoverability.

**Cyprus**
The corporation tax rate is 10%. Under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax, thus having an effective tax rate burden of approximately 15%. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 15%.

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 2010, the balance of tax losses which is available for offset against future taxable profits amounts to GBP2,107,254 (2009: GBP1,704,395).

**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 2010, the balance of tax losses which is available for offset against future taxable profits amounts to GBP187,155 (2009: GBP166,743).

**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. Kackar Madencilik Sanayi ve Ticaret Limited Sirket, from 15 July 2010 is 100% subsidiary of the Group, is also resident in Turkey for tax purposes.

The corporation tax rate is 20%. Under local tax legislation, exploration costs are can only be set off against income from mining operations. As at 31 December 2010, the balance of exploration costs that is available for offset against future income from mining operations amount to GBP1,731,749 (2009: GBP1,391,180).

## 10. Loss per share

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

| | 2010 | 2009 |
|---|---|---|
| | GBP'000 | GBP'000 |
| Net loss attributable to equity shareholders | **(702)** | (964) |
| | **'000** | '000 |
| Average number of ordinary shares for the purposes of basic earnings per share | **293,023** | 205,533 |
| **Earnings per share:** | **GBP** | GBP |
| Basic and fully diluted losses per share | **0.01** | 0.01 |

The effect of share options and warrants on earnings per share is anti-dilutive; no separate disclosure is required.

## 11. Property, plant and equipment

| **The Group** | **Motor vehicles GBP'000** | **Furniture, fixtures and office equipment GBP'000** | **Total GBP'000** |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2009 | 45 | 19 | 64 |
| Additions | 13 | 8 | 21 |
| Exchange difference on translation of subsidiaries | 1 | 1 | 2 |
| **At 31 December 2009 / 1 January 2010** | **59** | **28** | **87** |
| Additions | **-** | **1** | **1** |
| Exchange difference on translation of subsidiaries | **13** | **(8)** | **5** |
| **At 31 December 2010** | **72** | **21** | **93** |
| | | | |
| **Accumulated Depreciation** | | | |
| At 1 January 2009 | 22 | 6 | 28 |
| Charge for the year | 14 | 3 | 17 |
| **At 31 December 2009 / 1 January 2010** | **36** | **9** | **45** |
| Charge for the year | **14** | **3** | **17** |
| Exchange difference on translation of subsidiaries | **6** | **(2)** | **4** |
| **At 31 December 2010** | **56** | **10** | **66** |
| | | | |
| **Net Book Value at 31 December 2010** | **16** | **11** | **27** |
| | | | |
| Net Book Value at 31 December 2009 | 23 | 19 | 42 |

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

The Company has no property, plant and equipment.

## 12. Intangible assets

| | Goodwill GBP'000 | **Total GBP'000** |
|---|---|---|
| **Cost** | | |
| At 1 January 2009, 31 December 2009 and 31 December 2010 | 364 | **364** |
| **Impairment** | | |
| At 1 January 2009, 31 December 2009 and 31 December 2010 | (364) | **(364)** |
| **Net Book Value** | | |
| At 1 January 2009, 31 December 2009 and 31 December 2010 | - | **-** |

## 13. Fixed asset investments

| **The Group** | **2010 GBP'000** | 2009 GBP'000 |
|---|---|---|
| **Cost and Net Book Value** | | |
| At 1 January | **2** | - |
| Additions | **181** | 2 |
| Disposal through business combination | **(2)** | - |
| At 31 December | **181** | 2 |

**The Company**

| | 2010 | 2009 |
|---|---|---|
| **Cost** | | |
| At 1 January | **2** | 2 |
| Additions | **900** | - |
| At 31 December | **902** | 2 |
| **Provision for impairment** | | |
| At 1 January | **-** | - |
| Provision | **720** | - |
| At 31 December | **720** | - |
| **Net Book Value** | **182** | 2 |

| **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 |
| Kackar Madencilik Sanayi ve Ticaret Limited Şirket | 15/07/2010 | Turkey | 100%-Indirect |
| **Jointly controlled company (Note 18.2)** | | | |
| 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.

**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 18.1). 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:

| | GBP'000 |
|---|---|
| Trade and other receivables | 146 |
| Total current assets | 146 |
| | |
| Trade and other payables | (6) |
| Total current liabilities | (6) |
| | |
| Total Net identifiable assets and liabilities | 140 |
| | |
| Consideration | - |
| Fair value of interest at date of acquisition | 42 |
| Bargain purchase | 98 |

| | GBP'000 |
|---|---|
| Gain on elimination of debt | 216 |
| Bargain purchase | 98 |
| Total amount recognised on acquisition in income statement | 314 |

### 14. Trade and other receivables

| | 2010 GBP'000 | 2009 GBP'000 |
|---|---|---|
| **The Group** | | |
| Trade receivables | **3** | - |
| Amount receivable from Saudi Arabia Joint Venture | **32** | 6 |
| Other receivables | **136** | 43 |
| Deposits and prepayments | **35** | 15 |
| | **206** | 64 |

| | 2010 GBP'000 | 2009 GBP'000 |
|---|---|---|
| **The Company** | | |
| Trade receivables | **3** | - |
| Amount receivable from Saudi Arabia Joint Venture | **439** | 205 |
| Owed by group companies | **-** | - |
| | **442** | 205 |

Amounts owed by group companies totaled GBP142,000 (2009: GPB1.6 million). Balances have been fully provided for due to the uncertainty over the timing of future recoverability.

### 15. Cash and cash equivalents

| | 2010 GBP'000 | 2009 GBP'000 |
|---|---|---|
| **The Group** | | |
| Cash at bank and in hand (Note 3) | **539** | 322 |
| **The Company** | | |
| Cash at bank and in hand | **530** | 319 |

### 16. Share capital

| | Number of shares '000 | Share Capital GBP'000 | Share premium GBP'000 | Total GBP'000 |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| At 1 January 2009 | 129,646 | 1,296 | 1,347 | 2,643 |
| Issued 10 March 2009 at GBP0.01 | 58,434 | 585 | - | 585 |
| Issued 12 June 2009 at GBP0.0125 | 36,000 | 360 | 90 | 450 |
| Issued 18 June 2009 at GBP0.0142 | 703 | 7 | 3 | 10 |
| Issued 15 July 2009 at GBP0.0125 | 11,200 | 112 | 28 | 140 |
| Warrants exercised 15 December 2009 | 2,184 | 22 | - | 22 |
| Share issue costs | - | - | (55) | (55) |
| **At 31 December 2009 / 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 GBP0.0125 | **1,187** | **10** | **-** | **10** |
| Issued 19 October 2010 at GBP0.0125 | **50,000** | **500** | **125** | **625** |
| Share issue costs | **-** | **-** | **(91)** | **(91)** |
| **At 31 December 2010** | **331,317** | **3,311** | **1,697** | **5,008** |

### 16. Share capital (continued)

#### Issued capital

On 10 March 2009 58,434,004 shares of GBP 0.01 were issued at a price of GBP 0.01.

On 12 June 2009 36,000,000 shares of GBP 0.01 were issued at a price of GBP 0.0125. Upon the issue an amount of GBP 90,000 was credited to the company's share premium reserve.

On 18 June 2009 702,839 shares of GBP 0.01 were issued at a price of GBP 0.0142. Upon the issue an amount of GBP 2,972 was credited to the company's share premium reserve.

On 15 July 2009 11,200,000 shares of GBP 0.01 were issued at a price of GBP 0.0125. Upon the issue an amount of GBP 28,000 was credited to the company's share premium reserve.

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

In conjunction with the issue of shares on 8 May 2008 the Company issued 10,406,121 warrants to subscribe for new ordinary shares of GBP 0.01 each at GBP 0.05 per share. These warrants expired on the 29 April 2010.

On 9 March 2009 the Company issued 2,184,340 warrants to subscribe for new ordinary shares of GBP 0.01 each at GBP 0.01 per share that were exercised on 15 December 2009.

On 9 March 2009 the Company issued 1,296,456 warrants to subscribe for new ordinary shares of GBP 0.01 each at GBP 0.0288 per share.

On 19 June 2009, the Company issued 1,800,000 warrants to subscribe for new ordinary shares of GBP 0.01 each at GBP 0.0125 per share.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## Year ended 31 December 2010

**16. Share capital (continued)**

**Warrants (continued)**

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 2010:

| Grant date | Expiry date | Exercise price GBP | Number of warrants 000's |
|---|---|---|---|
| 9 March 2009 | 8 March 2014 | 0.0100 | 1,296 |
| 19 June 2009 | 18 June 2014 | 0.0125 | 1,800 |
| 8 January 2010 | 7 January 2015 | 0.0160 | 966 |
| 21 January 2010 | 21 January 2015 | 0.0160 | 281 |
| 20 October 2010 | 19 October 2013 | 0.0125 | 2,500 |
| | | | 6,843 |

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 2010 | 3,396 |
| - granted | 3,747 |
| - cancelled / forfeited | (300) |
| Outstanding warrants at 31 December 2010 | 6,843 |

On 8 October 2010, 2.5 million warrants were issued which expire three years after the grant date, and are exercisable at any time within that period.

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:

| | 8 Oct 10 | 21 Jan 10 | 8 Jan 10 | 19 Jun 09 | 9 Mar 09 | 9 Mar 09 |
|---|---|---|---|---|---|---|
| Closing share price at issue date | 2.04p | 2.05p | 2.00p | 2.45p | 1.7p | 1.7p |
| Weighted average exercise price | 1.25p | 1.6p | 1.6p | 1.25p | 2.88p | 1.0p |
| Expected volatility | 167.5% | 227% | 227% | 238.5% | 210.2% | 210.2% |
| Expected life | 3yrs | 5yrs | 5yrs | 5 yrs | 5 yrs | 5 yrs |
| Risk free rate | 2.25% | 2.75% | 2.75% | 5% | 3.5% | 3.5% |
| Expected dividend yield | Nil | Nil | Nil | Nil | Nil | Nil |
| Discount factor | 50% | 50% | 50% | Nil | 55% | Nil |
| Estimated fair value | 0.54p | 1.02p | 0.99p | 2.44p | 0.75p | 1.68p |

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

Due to the fact that it is unlikely the market would factor in such a high volatility a discount factor has been applied, which in the opinion of the directors, provides a more reasonable valuation.

For 2010, the impact of issuing warrants is a net charge to income of GBP14,000 (2009:GBP47.000). At 31 December 2010, the equity reserve recognized for share based payments, including warrants, amounted to GBP396,000 (2009: GBP382.000).

### 17. Share options reserve

Details of share options outstanding as at 31 December 2010:

| Grant date | Expiry date | Exercise price GBP | Number of shares 000's |
|---|---|---|---|
| 18 December 2006 | 18 December 2012 | 0.0300 | 15,750 |
| 12 March 2007 | 11 March 2013 | 0.0350 | 250 |
| 18 April 2007 | 17 April 2013 | 0.0350 | 1,000 |
| 04 June 2007 | 03 June 2013 | 0.0350 | 500 |
| 24 June 2008 | 23 June 2014 | 0.0325 | 50 |
| 12 June 2009 | 11 June 2014 | 0.0240 | 8,900 |
| 03 May 2010 | 02 May 2014 | 0.0122 | 1,000 |
| 01 July 2010 | 30 June 2014 | 0.0071 | 100 |
| **Total** | | | 27,550 |

| | Number of shares 000's |
|---|---|
| Outstanding options at 31 December 2009 | 27,200 |
| - granted | 1,100 |
| - cancelled/forfeited | (750) |
| Outstanding options at 31 December 2010 | 27,550 |

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 3 May 2010, 1,000,000 options were issued which expire four 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 four years after the grant date, and are exercisable at any time within that period.

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.

**17. Share options reserve (continued)**

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:

| | 1 Jul. 2010 | 3 May 2010 | 12 Jun. 2009 | 24 Jur 200 | 4 Jun. 2007 | 18 Apr. 2007 | 12 Mar. 2007 |
|---|---|---|---|---|---|---|---|
| Closing share price at issue date | 0.73p | 1.39p | 2.00p | 3.25p | 3.62p | 3.88p | 3.30p |
| Weighted average exercise price | 0.713p | 1.22p | 2.40p | 3.25p | 3.50p | 3.50p | 3.50p |
| Expected volatility | 167.50% | 195% | 238.50% | 147.60% | 68.06% | 68.06% | 68.06% |
| Expected life | 4yrs | 4 yrs | 5 yrs | 6 yrs | 6 yrs | 6yrs | 6yrs |
| Risk free rate | 2.25% | 2.25% | 5.00% | 5.00% | 6.08% | 5.95% | 5.73% |
| Expected dividend yield | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Discount factor | 50% | 50% | 55% | 30% | 30% | 30% | 30% |
| Estimated fair value | 0.649p | 0.59p | 0.89p | 2.13p | 1.71p | 1.85p | 1.50p |

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

Due to the fact that is unlikely the market would factor in such a high volatility a discount factor has been applied, which in the opinion of the directors, provides a more reasonable valuation.

For 2010, the impact of share-based payments is a net charge to income of GBP16,000 (2009: GBP94.000). At 31 December 2010, the equity reserve recognized for share based payments, including warrants, amounted to GBP396,000 (2009: GBP382.000).

**18. Joint Venture Agreements**

**18.1 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.

The Artvin Project is located in the Artvin Province of north eastern Turkey and comprises 15 tenements, which cover approximately 254km$^2$ within the eastern portion of the Eastern Pontide Belt. The Eastern Pontide Belt is a major metallogenic province in the eastern Black Sea coastal region and is prospective for volcanic-hosted massive sulphide (VHMS) deposits, porphyry copper-gold deposits and epithermal gold-silver mineralisation (The 'Project Area").

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.

**18. Joint Venture Agreements (continued)**

**18.1 Joint Venture with Centerra Gold (KB) Inc. (continued)**

KEFI Minerals is the manager of the Artvin Project and Centerra had the right to become manager at any time. Once Centerra has earned its 50% or 70% shareholding in Kackar, KEFI and Centerra would fund their respective percentage interests of future expenditure subject to dilution for non-participation in such expenditure. If either party's interest was diluted to less than 10%, that party's interest would automatically be converted to a 3% net smelter return royalty, in which case the other party had the right to purchase half of the royalty (1.5%) for US$1.5 million.

The Joint Venture Agreement contained certain warranties given by KEFI and its group companies in respect of the Project and while KEFI is the Manager of the Project and majority shareholder in Kackar any advances made by Centerra which were not expended on the Project were repayable in certain circumstances. The Joint Venture Agreement also contained a number of matters concerning the business of Kackar for which Centerra's consent would have to be obtained.

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. For 2010 share of loss amounted to GBP22,757 (2009: GBP149,682) has been recognized.

From 15 July 2010 Kackar is treated as a wholly owned subsidiary.

**18.2 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.

The cumulative expenditure incurred by the company KEFI Minerals until 31 December 2010 amounted to GBP 438,732 (2009: GBP 205,622).

The G&M Joint Venture is treated as a joint venture and has been equity accounted. A loss of GBP207,123 (2009: GBP178,867) has been recognized. As at 31 December 2010 the G&M Joint Venture owed KEFI Minerals an amount of GBP31,649 (2009: GBP5,662).

### 18.3 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 earns 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 has earned its 51% interest, each party shall fund their respective percentage interests subject to dilution for non-participation in such expenditure. If either party's interest is diluted to less than 10%, that party's interest will automatically be converted to a 2.0% net smelter return royalty.

KEFI Minerals will be the manager of the Project and Centerra has the right to become manager if they so elect and have met certain milestones. The Bakir Tepe Licences cover a 78 sq km area and were granted to KEFI Minerals in June 2008.

The cumulative advances made by Centerra Gold (KB) Inc. until the 31 December 2010 amounted to US$270,984.

The Bakir Tepe Joint Venture is treated as a joint venture and has been equity accounted. A loss of GBP 63,892 has been recognised

### 19. Trade and other payables

| The Group | **2010 GBP'000** | 2009 GBP'000 |
|---|---|---|
| Trade payables | **107** | 78 |
| Accruals | **7** | 11 |
| Amount due to jointly controlled entity | **-** | 22 |
| Payable to related companies (Note 20.2) | **6** | 16 |
| | **120** | 127 |

| The Company | **2010 GBP'000** | 2009 GBP'000 |
|---|---|---|
| Trade payables | **88** | 76 |
| Payable to related companies (Note 20.2) | **6** | 16 |
| | **94** | 92 |

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

### 20. Related party transactions

The following transactions were carried out with related parties:

#### 20.1 Compensation of key management personnel

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

| | **2010** | 2009 |
|---|---|---|
| | **GBP'000** | GBP'000 |
| Directors' fees | **175** | 156 |
| Share-based benefits to directors | **-** | 71 |
| Other key management personnel fees | **143** | 73 |
| Share-based benefits to other key management personnel | **15** | 10 |
| | **333** | 310 |

The Company has an ongoing service agreement with EMED Mining Public Ltd for provision of management and other professional services (Note 22).

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.

#### 20.2 Payable to related parties

| | | **2010** | 2009 |
|---|---|---|---|
| | | **GBP'000** | GBP'000 |
| **Name** | **Nature of transactions** | | |
| EMED Mining Public Ltd | Finance | **6** | 16 |

#### 20.3 Transactions with related parties

| | | **2010** | 2009 |
|---|---|---|---|
| | | **GBP'000** | GBP'000 |
| **Name** | **Nature of transactions** | | |
| EMED Mining Public Ltd | Provision of management services and other professional services | **115** | 100 |

### 21. 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).

### 21. Contingent liabilities (continued)

Under the joint venture agreement with Centerra Gold (KB) Inc (see Note 18) there are certain warranties given by KEFI and its group companies whereby KEFI, while manager and majority shareholder in the project, must in certain circumstances repay any advances made by Centerra not expended on the Project. As at 31 December 2010 such unexpended balances stood at GBPNil.

### 22. 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.

### 23. Capital commitments

The Group has no capital or other commitments as at 31 December 2010.

### 24. Subsequent events

On 4 February 2011, the company completed an issue of 26,000,000 new shares at a price of 5p to raise an additional GBP1.3million.

In March 2011, KEFI Minerals executed a heads of agreement to sell the Company's Derinin Tepe (also known as Kizilcukur), Muratdag and Yatik West projects in western Turkey to Ariana Resources plc. The sale consideration includes KEFI Minerals retaining a 2% Net Smelter Royalty on all future mineral production from these licences.

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

### 25. Standards effective but not in force

At the year end the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:

**IFRS 9 'Financial Instruments'**

Issued in November 2009 and applicable from 1 January 2013, this standard has yet to be endorsed by the EU. The new standard is being developed to replace IAS 39 'Financial Instruments: recognition and measurement'

**25. Standards effective but not in force (continued)**

**IAS 24 (Revised) ‘Related party disclosures’**

Issued in November 2009 and mandatory for periods beginning on or after 1 January 2011, the new standard clarifies the definition of a related party and simplifies disclosure requirements.

**IFRIC 19 ‘Extinguishing financial liabilities with equity instruments**

This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in an entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. Effective for periods beginning on or after 1 July 2010.

**‘Prepayments of a minimum funding requirement (amendments to IFRIC 14 – ‘IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’**

This has been amended and is effective for periods beginning 1 January 2011. This will have no impact on the company as it has no defined benefit pension scheme.

The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Group.

In addition the IASB undertakes an annual improvements project. The current project is not expected to have a material effect on the financial statements of the Group.

# CORPORATE DIRECTORY

| | |
|---|---|
| **Directors** | Aristidis (Harry) Anagnostaras-Adams (Non-Executive Chairman) Ian Rutherford Plimer (Non-Executive Director)<br>Jeffrey Guy Rayner (Managing Director)<br>John Edward Leach (Finance Director) |
| **Principal Place of Business** | Cumhuriyet Bulvari No. 140/1<br>Isik Apt, K:8 Alsancak<br>Izmir<br>Turkey |
| **Exploration Office** | Cemal Gursel Caddesi Yali Apt.<br>No.304 Kat:4 D.9<br>35501 Karsiyaka<br>Izmir<br>Turkey |
| **Registered Office** | 27/28 Eastcastle Street<br>London W1W 8DH<br>United Kingdom |
| **Company Secretary** | Cargil Management Services Limited<br>22 Melton Street<br>London NW1 2WB<br>United Kingdom |
| **Auditors** | Moore Stephens LLP<br>150 Aldersgate Street<br>London<br>EC1A 4AB<br>United Kingdom |
| **Nominated Adviser** | Fox Davies Capital Limited<br>1st floor,<br>Whitefriars House<br>6, Carmelite Street<br>London<br>EC4Y 0BS<br>United Kingdom |
| **Broker** | Fox-Davies Capital<br>Whitefriars House<br>6 Carmelite Street<br>London EC4Y 0BS<br>United Kingdom |
| **Share Registrar** | Share Registrars Limited<br>Suite E, First floor,<br>9, Lion & lamb Yard,<br>Farnham,<br>Surrey GU9 7LL<br>United Kingdom |

**KEFI Minerals is listed on AIM (Code: KEFI).**

**www.kefi-minerals.com**