

DIRECTORS' REPORT

ZERO COUPON CONVERTIBLE LOAN NOTES *(continued)*

On 15 December 2008 the Company raised \$5 million from existing substantial shareholders, in the form of a zero coupon convertible unsecured loan note ("Convertibles B"). An issue of US\$4,200,000 of zero coupon convertible loan notes to Highland African Ventures Limited ("HAVL") (the Company's major shareholder) was subscribed for in two separate tranches i.e. US\$1,200,000 on 15 December 2008 and US\$3,000,000 on 26 January 2009. A further issue of US\$800,000 of zero coupon convertible loan notes was made and subscribed for by BlackRock World Mining Trust plc on 15 December 2008.

The Convertibles B were issued on the following principal terms:

- Convertible into ordinary shares at an effective 15p per share.
- Convertible at the holder's discretion or the Company's discretion into ordinary shares at any time following the passing of a special resolution to approve the issue of the new ordinary shares arising on conversion of the Convertibles B. It is expected that the special resolution will be proposed at the Annual General Meeting ("AGM").
- The holder may require some or all of the Convertibles B to be repaid in the event of an issue by the Company of new ordinary shares for cash on the basis that the entire proceeds are immediately applied by the holder in subscribing for its entitlement to such new ordinary shares.
- If the Convertibles B are not converted, the principal amount is repayable on 31 December 2020.
- No interest shall be payable by the Company in respect of the Convertibles B.

The proceeds from the Convertibles B were used to fund additional working capital and operational costs as a consequence of the delays experienced in ramping up production to targeted levels.

It is anticipated that the conversion of the Convertibles B into ordinary paid up shares will be approved at the shareholders' AGM scheduled to take place in July 2009.

PRIVATE PLACEMENT OF SHARES

In May 2008, in accordance with the terms of the Company's Articles of Association, the Board undertook a private placement of ordinary shares with institutional and high net worth shareholders to raise \$6 million to fund working capital required and operational requirements.

A total of 3,045,685 ordinary shares of £0.0004 each were placed at £1.00 each.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Company made no political or charitable contributions during the year.