Report of the Directors and

Audited Financial Statements for the Year Ended 31 December 2011

for

Pathfinder Minerals Plc

DIRECTORS:	Nicholas Trew James Normand John McKeon
SECRETARY:	James Normand
REGISTERED OFFICE:	60 Lombard Street London EC3V 9EA
REGISTERED NUMBER:	02578942 (England and Wales)
AUDITORS:	Chapman Davis LLP 2 Chapel Court London SE1 1HH
SOLICITORS:	Travers Smith LLP 10 Snow Hill London EC1A 2AL
NOMINATED ADVISORS:	Daniel Stewart and Company Becket House 36 Old Jewry London EC2R 8DD
REGISTRARS:	Capita Registrars Limited 34 Beckenham Road Beckenham Kent BR3 4TU
BANKERS:	Royal Bank of Scotland 1 Dale Street Liverpool L2 2PP

Background

In February 2011, Pathfinder Minerals completed the acquisition of IM Minerals Limited ("IMM") for £34.7 million and, with it, two adjacent licences over heavy mineral bearing sands on the Indian Ocean Coast of Mozambique, known as Moebase and Naburi (the "Licences"). Pathfinder Minerals was founded around these world-class deposits of ilmenite, rutile and zircon and is entirely focused on a strategy to build and operate a mine to produce these minerals.

By mid-2011, Pathfinder Minerals had advanced significantly the development of the Licences and by commissioning, and completing a scoping study report carried out by the engineering consultants URS/Scott Wilson. The scoping study helped to develop the optimum mining method, process flow sheet and ancillary infrastructure requirements as well as progressing to the next level of engineering and cost accuracy.

In July 2011, Pathfinder Minerals undertook a £11 million fundraising backed by institutional investors. These proceeds enabled the Company to accelerate the development programme and, in September 2011, Pathfinder Minerals appointed Jacobs Matasis (Pty) to carry out the Definitive Feasibility Study with the benefit of a grant from the South African Department of Trade and Industry towards work on our licences. A LIDAR survey was completed by the Southern Mapping Company of South Africa in October, and drilling on the Moebase licence, originally acquired from BHP Billiton, was scheduled to begin in November 2011.

Suspension of trading

Trading in Pathfinder Minerals' shares was suspended at the Company's request on 11 November 2011, following the resignation of General Veloso from the Board and his assertion that Pathfinder Minerals no longer held its mining licences in Mozambique. At the time, it was appropriate that trading in the Company's shares should be suspended to enable the position to be clarified. The Board believes that, in light of the clearer position which is conveyed in this statement, both in terms of the status of the Company's assets and the routes by which control of those assets may or may not be restored, it is now appropriate to lift the suspension of trading in the Company's shares. Trading in the Company's shares will therefore be restored at 7.30 a.m. on 29 June 2012.

The Company's actions since suspension

Since trading in the Company's shares was suspended, the Board's sole focus has been on clarifying the status of the Company's assets and seeking to restore control of them in order that project development can be resumed.

The restoration of control entails:

- securing the ownership and control of the Company's Mozambique subsidiary, Companhia Mineira de Naburi S.A.R.L. ("CMDN"); and
- recovering the Licences previously held by CMDN.

There are, broadly, three processes by which the Company is seeking to regain ownership and control of its assets, namely:

1. multiple legal proceedings which are underway in the English and Mozambican courts;
2. a political process, which has already involved dialogue at the highest level between the UK and Mozambique governments; and
3. a line of communication, recently established through representatives of Pathfinder in Mozambique, with General Veloso.

Ownership and control of CMDN

IMM, the Company's wholly owned UK subsidiary, holds or held 399,998 of the 400,000 shares of CMDN. However, General Veloso and his associates have asserted, first that the agreements by which the shares in CMDN were acquired by IMM (the "Acquisition Agreements") were null and void and, subsequently, that IMM has never been the owner of any shares in CMDN.

These assertions have been made notwithstanding:

- the existence of the Acquisition Agreements, which are governed by English law, by which the shares were acquired and which were signed by or on behalf of General Veloso (and/or J.V. Consultores, Limitada ("JVC"), a company controlled by General Veloso) and Mr Cavaco;
- the issue by CMDN of a share certificate in the name of IMM (the "Share Certificate") evidencing its ownership of 399,998 of the 400,000 issued shares signed by General Veloso and Mr Cavaco;
- representations made by General Veloso and Mr Cavaco to the Mozambique Ministry of Mineral Resources that IMM was a shareholder in CMDN;
- the attendance by General Veloso and Mr Cavaco at EGMs of CMDN in 2009 and 2010 approving the transfer of 75 per cent. and then of all but two of the shares in CMDN to IMM;
- Mr Cavaco's detailed involvement in the verification of IMM's ownership of 399,998 shares in CMDN for the purpose of the circular to shareholders at the time of the Company's admission to listing on AIM in February 2010; and
- the fact that General Veloso and Mr Cavaco's current shareholding in the Company, totalling 19.12 per cent. of the Company's issued shares, was acquired by exchanging shares in CMDN for shares in IMM which were then exchanged for shares in the Company.

General Veloso and Mr Cavaco have denied the validity of the Share Certificate they signed, which replaced previously held bearer share certificates, and have purported to cancel the original bearer share certificates and to issue to themselves (and JVC) new share certificates representing the entire issued share capital of CMDN.

Action in England

In the circumstances described above, Pathfinder Minerals obtained an injunction on 19 December 2011 from the English High Court ordering General Veloso, JVC and Mr Cavaco (the "Defendants") not to take any steps to interfere with the rights of ownership of IMM in the shares of CMDN pursuant to the Acquisition Agreements. At a hearing on 19 March 2012, the Defendants gave an undertaking to the English Court that, until trial or further order, they would not take any further steps to interfere with IMM's asserted rights of ownership of shares in CMDN, including by taking any further steps to have those shares cancelled or annulled or otherwise; and would not take any steps in Mozambique or elsewhere to alter the constitution or share capital of CMDN, or to have CMDN dissolved, wound up, sold or otherwise.

Also on 19 December 2011, Pathfinder Minerals commenced substantive legal proceedings in the English courts seeking, amongst other things, declarations from the English court as to the validity and effect of the Acquisition Agreements (the "Contract Claims"). The Defendants accepted the jurisdiction of the English High Court to determine the Contract Claims and a hearing date of 29 October 2012 was set.

The Company announces that it has now been informed by the Defendants' English lawyers that they are no longer instructed to act on the Defendants' behalf and that the Defendants intend to take no further part in the English proceedings.

Contrary to their express agreement to submit to the jurisdiction of the English court for the purpose of the determination of the Contract Claims, the Defendants have, however, sought to prevent the continuation of the English proceedings by obtaining an interdict from the Mozambique courts prohibiting IMM from taking any action in the English courts under two of the disputed Acquisition Agreements (relating to the acquisition by IMM of 75 per cent. of the shares in CMDN) – effectively an anti-suit injunction. That interdict was granted without a hearing and without notice to IMM. A hearing subsequently took place in the Maputo court on 3 May 2012 at which IMM was represented and contested the interdict. Judgment is still awaited, but at the hearing the judge confirmed that she had not been made aware of the existence of the English proceedings when she had first granted the interdict and that the interdict did not apply to those English proceedings already underway.

In light of steps taken by the Defendants in the Mozambique courts described above, Pathfinder Minerals has also obtained an interim injunction from the English High Court on 15 May 2012, ordering the Defendants to withdraw and not to pursue any proceedings in Mozambique which seek to restrain the current litigation in the English courts aimed at determining the parties' contractual rights under the Acquisition Agreements. That injunction was continued until trial or further order at a further hearing on 30 May 2012 which the Defendants did not attend and at which they were ordered to pay the Company's costs of the application on an indemnity basis. So far as the Company is aware, the Defendants have not complied with the injunction.

Action in Mozambique

The Board of CMDN had a majority of local directors, being General Veloso, his daughter and Mr Cavaco. Following General Veloso's resignation, and the discovery of the apparent removal of the Licences from CMDN to Pathfinder Moçambique (as to which see below), IMM convened and on 17 January 2012 held an extraordinary general meeting of CMDN ("EGM"). The purpose of the EGM was to amend the constitution of CMDN and to remove the local directors from the Board of CMDN. Notwithstanding a representative of General Veloso and Mr Cavaco voting on their behalf at the EGM in respect of the two CMDN shares owned by them, all the resolutions put forward by IMM (the "January Resolutions"), including to remove the local directors and appoint an additional director on behalf of IMM, were successfully passed.

Immediately prior to the EGM, however, Pathfinder Minerals was advised that General Veloso, Mr Cavaco and JVC had purported to hold a contradictory EGM of CMDN in December 2011, in order to pass resolutions (the "December Resolutions") to remove Pathfinder Minerals' appointees from the Board of CMDN and to authorise the cancellation of the original bearer share certificates and reissue of bearer share certificates to themselves (as described above). The Defendants failed to recognise IMM as a shareholder of CMDN and called the meeting without giving notice to IMM. These steps had been taken notwithstanding IMM's holding of the Share Certificate and the various acts and conduct on the part of General Veloso, Mr Cavaco and JVC evidencing that ownership (as further described above).

On the basis of advice from a leading Mozambican law firm that the December Resolutions were not lawfully passed, IMM has commenced legal proceedings in Mozambique to contest the validity of the December Resolutions, including seeking an interdict preventing CMDN from implementing the December Resolutions. So far as the Company is aware, at the time of this announcement no decision has been given by the Mozambique court in those legal proceedings. Pathfinder Minerals also sought to register the January Resolutions with the Legal Entities Registrar in Maputo. The Company has now been advised that those resolutions have been so registered and been published in the Mozambique Government Gazette.

As the registration of the January Resolutions supersedes the rival December Resolutions, the principal obstacle now in the way of the Company regaining control of CMDN and being able to pursue recovery of the Licences is an interdict, apparently granted upon the application of General Veloso and his associates (referred to in the RNS announcement of 20 March 2012), provisionally suspending the January Resolutions. Substantive legal proceedings have also been commenced on behalf of General Veloso and his associates seeking the permanent annulment of the January Resolutions from the Mozambique court. IMM is not a party to either the interdict or the substantive proceedings, since these have been brought against CMDN itself in accordance with applicable Mozambique law. Nevertheless, IMM has recently filed an application in the Maputo Court seeking the appointment of an independent third party to defend the proceedings on behalf of CMDN, given the clear conflict of interest inherent in General Veloso bringing a claim for temporary suspension and ultimately permanent annulment of the resolutions against CMDN which is under his *de facto* control. Again, so far as the Company is aware, IMM's application has not yet been ruled upon..

The Licences

In November 2011, Pathfinder Minerals learned of the existence of Pathfinder Moçambique S.A., a Mozambique-incorporated company established on 23 September 2011, with which neither Pathfinder Minerals nor its subsidiaries are affiliated. It was established that the shareholders of Pathfinder Moçambique S.A. are General Veloso, JVC and Mr Cavaco.

The Mozambique Ministry of Mineral Resources has confirmed to the Company that, at present, mining concession licences 4623C and 760C, which were issued to Pathfinder Minerals' subsidiary CMDN, are no longer registered to CMDN. The Company has also established that Pathfinder Moçambique S.A. has been granted an exploration and research licence (with number 4623C) over an area amalgamating Pathfinder Minerals' Moebase and Naburi mining concession areas. The Company has yet to receive any explanation from the Ministry on how this could have taken place. The Company's standing to insist on this would become clearer once control of CMDN is returned to IMM. In the meantime, political pressure is being brought to bear (see below).

The Company and its lawyers have made numerous urgent requests of the Defendants and their London lawyers, since General Veloso's resignation, seeking an explanation of the basis upon which the Licences had allegedly been transferred from CMDN. Despite those requests, it was only on 17 February 2012 that the Defendants for the first time disclosed to the Company an agreement which purports to have been made between the Defendants and CMDN and dated 27 February 2006 (the "2006 Agreement"). Curiously, it appears to be a term of the 2006 Agreement that its existence had to be kept secret by the Defendants from the Board of CMDN (on penalty of a payment of US$1 million) unless and until one of the Defendants ceased to be a director of CMDN. The 2006 Agreement provides, broadly, that CMDN is obliged to transfer the Naburi licence to JVC in the event that: (a) US$2 million is not paid by CMDN to JVC; or (b) the Project is not progressed to export, both within 5 years of the agreement. The 2006 Agreement also provides that, in that event, the sum of US$100 million will be paid by CMDN to JVC. Also on 15 February 2012, the Defendants additionally disclosed the existence of a resolution of CMDN purportedly passed in a general meeting on 11 May 2009 (the "May 2009 Resolution") confirming that the 2006 Agreement (albeit without the US$100 million penalty referred to above) shall also apply to the Moebase licence which was acquired from BHP Billiton at that time (using funds provided by IMM).

The 2006 Agreement and the May 2009 Resolution have never previously been disclosed to the Company nor to its Directors, despite representations having been received from the Defendants that there were no undisclosed material contracts. The Company has disputed the authenticity of the 2006 Agreement and the May 2009 Resolution in the Contract Claims referred to above. The Company has been advised by its Mozambique lawyers that, even if authentic, under Mozambique law the 2006 Agreement is not binding on CMDN and the May 2009 Resolution is annullable (although both are matters of Mozambique law which would need a court determination). Legal proceedings have been commenced in the Mozambique courts to seek annulment of the May 2009 Resolution and IMM is awaiting notification of a hearing date for determination of the preliminary question of whether or not it was a shareholder of CMDN as at 11 May 2009 when the resolution was purportedly passed.

Political status and developments

Until the legal processes in Mozambique have re-confirmed IMM's ownership of CMDN, the Company is advised that it does not have the standing to take legal action for the recovery of its Licences. Accordingly, concurrent with these legal proceedings, Pathfinder Minerals has been seeking the assistance of both the UK and Mozambique Governments to obtain a resolution of the issues outside the judicial processes.

Due to sensitivities surrounding the political process, the Company has, to date, not been able to publish any details in this regard. The Company is now able to confirm that the Prime Minister, David Cameron MP, and the Foreign Secretary, William Hague MP, specifically raised the issue of Pathfinder Minerals at a meeting at 10 Downing Street on 9 May 2012 with the President of Mozambique, Armando Guebuza, during his visit to London. The Company has been further assured that the Minister of State at the Foreign and Commonwealth Office with responsibility for relations with Mozambique, Henry Bellingham MP, will continue to take a close personal interest in the issue.

At the same time, in Mozambique Pathfinder Minerals' local representative has held meetings with a senior Mozambique government minister who shares the serious concerns regarding the implications that the transfer of Pathfinder Minerals' assets may have under the Bilateral Investment Treaty between Mozambique and the UK and on the relationship between Mozambique and the UK more generally.

Communication with General Veloso

Since trading in the Company's shares was suspended in November 2011, the Company has not until very recently been able to engage General Veloso in any dialogue on these issues, nor indeed to establish his personal involvement in the actions set out above. A line of communication was recently established between Pathfinder Minerals' Mozambique representative and General Veloso himself with a view to achieving a resolution without reliance on the courts. Meetings have now taken place between the Mozambique representative of Pathfinder Minerals, and both the Defendants' local legal representative and, subsequently, with General Veloso himself. At present it is not possible to ascertain whether or not a positive outcome will be achieved from this communication.

Financial results and current financial position

The financial statements of the Pathfinder Group for the year ended 31 December 2011 follow. The Income Statement shows a loss of £37.6 million. Of this, £34.8 million results from the Board's decision, in the light of events in Mozambique, to adopt a prudent accounting approach and make full provision against the Group's investment in its Mozambique subsidiaries. The largest part of the remaining expenditure consists of initial work on the Definitive Feasibility Study (referred to in the opening paragraphs of this announcement).

The Group's Statement of Financial Position shows net assets of £8.5 million, a level which reflects the net £10.3 million raised in July 2011. The assets are held largely in the form of cash deposits (totalling £8.5 million at the year-end).

Since 31 December 2011, the Board has concentrated its energies on attempting to recover the Group's assets expropriated by General Veloso and Mr Cavaco. As a result of these efforts, at the date of this announcement cash deposits have fallen to £6.1 million.

Outlook

During the last six months, the Board of Pathfinder has been undertaking an exercise of positioning the Company for political and legal redress. This strategy is bearing fruit and there is evidence of a strong political will to resolve the position of Pathfinder Minerals. To that end, our focus remains solely on recovering shareholders' assets and resuming the development of the Moebase and Naburi mineral sands concessions in Zambezia Province. The Board believes that, while a solution is taking much longer than it would have liked, the concessions granted to CMDN, if restored, would have a very material value to the Company.

In the event that the Company becomes solely reliant on the courts for a resolution, the Board believes, and is advised, that Pathfinder Minerals has a strong legal case. The Company continues to pursue these remedies in the interest of securing shareholder value.

The Board recognises that the period of suspension has deprived shareholders of their ability to trade in the shares of Pathfinder Minerals. However, we are grateful for the overwhelming and continuing support of our shareholders.

John McKeon
Chairman

29 June 2012

The directors present their report with the consolidated financial statements of the company for the year ended 31 December 2011.

PRINCIPAL ACTIVITY

The Company began the year as an investing company. On 9 February 2011 the Company completed its acquisition of IM Minerals Limited, a UK company with interests in companies in Mozambique holding mining licences. The principal activity of the Group for the remainder of the year under review was mining.

REVIEW OF BUSINESS

The review of the business, its operations and finances is contained in the Chairman's Statement.

DIVIDENDS

The Directors do not recommend the payment of a dividend.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is contained in the Chairman's statement.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2011 to the date of this report.

Nicholas Trew
James Normand

Other changes in directors holding office are as follows:

Mark Edmonds – resigned 9 February 2011
John McKeon – appointed 9 February 2011
Gordon Dickie – appointed 9 February 2011; resigned 16 September 2011
Tim Baldwin – appointed 9 February 2011; resigned 16 June 2011
General Jacinto Veloso – appointed 16 June 2011; resigned 11 November 2011

COMPANY'S POLICY ON PAYMENT OF CREDITORS

It is the company's policy to pay suppliers in accordance with the payment terms negotiated with them. The company's average creditor days during the year were 44 days (2010: 105 days).

FINANCIAL INSTRUMENTS

The company's financial instruments comprise borrowings and cash that arise directly from its operations. The main purpose of these financial instruments is to fund the company's operations as well as to manage working capital, liquidity and invest surplus funds. It is, and has been throughout the period under review, the company's policy not to enter into derivative transactions and no trading in financial instruments has been undertaken.

POLITICAL AND CHARITABLE CONTRIBUTIONS

No charitable or political contributions were made during the current or previous year.

SUBSTANTIAL SHAREHOLDINGS

The Directors' interests in the shares of the Company are set out in the notes to the financial statements. As at 28 June 2012, the following other shareholders had notified the company of an interest of 3 per cent. or more of the Company's ordinary share capital:

Shareholder name	*Number of 1p ordinary shares*	*Shareholding percentage*
Timothy Baldwin	115,128,316	11.1%
J V Consultores Internacionais Limitada (a company controlled by Jacinto Veloso)	110,120,680	10.6%
JP Morgan Funds	100,020,000	9.6%
Gordon Dickie (including 300,000 held in the name of Mr Dickie's wife, Mrs Ans Dickie)	89,806,920	8.7%
Diogo Cavaco	88,129,280	8.5%
Genesis Emerging Market Opportunities Fund	86,000,000	8.3%
YF Finance Limited	45,610,000	4.4%

RISK EXPOSURE

The Companies Act 2006 requires the Directors to set out in this report how the Group manages its exposure to risk.

The directors consider that the Company has sufficient cash and cash equivalents to meet its foreseeable operational requirements.

CORPORATE GOVERNANCE

The Board is responsible for establishing the strategic direction of the Company, monitoring the Group's trading performance and appraising and executing development and acquisition opportunities. The Company holds regular Board meetings, at which financial and other reports, including working capital reports and acquisition opportunities, are considered and, where appropriate, voted on.

The Directors support high standards of corporate governance and the Board complies with the QCA Guidelines so far as reasonably practicable and appropriate taking into account the Company's size. The Company's current situation does not allow for separate audit and remuneration committees and is not conducive to the appointment of non-executive directors, all of which the Board is keen to do as soon as circumstances allow.

The Board supports the principle of clear reporting of financial performance to shareholders. Each year, shareholders receive a full annual report and interim report. The Board regards the Annual General Meeting as an opportunity to communicate directly with private investors. Directors attend the Annual General Meeting and are available to answer questions from shareholders present. The Board actively encourages feedback and shareholder dialogue, whether oral or written.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. 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 that the financial statements comply with IFRS;
- 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Chapman Davis LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

James Normand
Director and Company Secretary

29 June 2012

We have audited the financial statements of Pathfinder Minerals PLC for the year ended 31 December 2011 which comprises the Statement of Consolidated Comprehensive Income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent company statements of cash flow and the related notes. 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.

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 a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Rowan J Palmer (Senior Statutory Auditor)
for and on behalf of Chapman Davis LLP
2 Chapel Court
London
SE1 1HH

29 June 2012

Year ended 31 December

	Notes	*2011* *£'000*	*2010* *£'000*
CONTINUING OPERATIONS			
Revenue		–	–
Administrative expenses		(2,533)	(1,057)
OPERATING LOSS BEFORE EXCEPTIONAL ITEMS		(2,533)	(1,057)
Exceptional items	5	(34,830)	–
OPERATING LOSS		(37,363)	(1,057)
Finance costs	6	–	(7)
Finance income	6	19	–
LOSS BEFORE INCOME TAX	7	(37,344)	(1,064)
Income tax	8	–	–
LOSS FOR THE YEAR		(37,344)	(1,064)
OTHER COMPREHENSIVE INCOME		–	–
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(37,344)	(1,064)
Loss per share (expressed in pence per share)	9		
Basic		(4.5)	(2.7)
Diluted		(4.5)	(2.7)

The notes form part of these financial statements

	Notes	*2011* *£'000*	*2010* *£'000*
ASSETS			
NON-CURRENT ASSETS			
Investments	10	–	200
CURRENT ASSETS			
Trade and other receivables	11	34	–
Cash and cash equivalents	12	8,471	21
		8,505	21
TOTAL ASSETS		8,505	221
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	13	18,289	8,412
Share premium	14	11,022	2,171
Other reserves	14	–	17
Merger reserve	14	–	–
Retained earnings	14	(21,343)	(11,337)
TOTAL EQUITY		7,968	(737)
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	537	958
TOTAL LIABILITIES		537	958
TOTAL EQUITY AND LIABILITIES		8,505	221

The financial statements were approved by the Board of Directors on 29 June 2012 and were signed on its behalf by:

James Normand
Finance Director

The notes form part of these financial statements

	Notes	2011 £'000	2010 £'000
ASSETS			
NON-CURRENT ASSETS			
Investments	10	–	200
		–	200
CURRENT ASSETS			
Trade and other receivables	11	33	–
Cash and cash equivalents	12	8,471	21
		8,504	21
TOTAL ASSETS		8,504	222
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	13	18,289	8,412
Share premium	14	11,022	2,171
Other reserves	14	–	17
Retained earnings (deficit)	14	(21,474)	(11,337)
TOTAL EQUITY		7,837	(737)
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	667	959
TOTAL LIABILITIES		667	959
TOTAL EQUITY AND LIABILITIES		8,504	222

The notes form part of these financial statements

	Called up share capital £'000	*Profit and loss account £'000*	*Share premium £'000*
Balance at 1 January 2010	7,997	(10,273)	1,970
Changes in equity			
Issue of share capital	415	–	201
Total comprehensive loss	–	(1,064)	–
Balance at 31 December 2010	8,412	(11,337)	2,171
Changes in equity			
Issue of share capital for cash (net of commission paid to brokers)	2,591	–	9,597
Commissions payable on equity capital raised	–	–	(746)
Issue of shares for assets (shares in subsidiary)	7,286	–	–
Transfers between reserves	–	27,338	–
Total comprehensive income	–	(37,344)	–
Balance at 31 December 2011	18,289	(21,343)	11,022

	Other reserves £'000	*Merger reserve £'000*	*Total equity £'000*
Balance at 1 January 2010	348	–	42
Changes in equity			
Issue of share capital	–	–	616
Total comprehensive income	(331)	–	(1,395)
Balance at 31 December 2010	17	–	(737)
Changes in equity			
Issue of share capital for cash (net of commission paid to brokers)	–	–	11,442
Commissions payable on equity capital raised	–	–	(746)
Issue of shares for assets (shares in subsidiary)	–	27,321	35,353
Transfers between reserves	(17)	(27,321)	–
Total comprehensive income	–		(37,344)
Balance at 31 December 2011	–	–	7,968

The notes form part of these financial statements

	Called up share capital £'000	*Profit and loss account £'000*	*Share premium £'000*
Balance at 1 January 2010	7,997	(10,273)	1,970
Changes in equity			
Issue of share capital	415	–	201
Total comprehensive income	–	(1,064)	–
Balance at 31 December 2010	8,412	(11,337)	2,171
Changes in equity			
Issue of share capital for cash (net of commission paid to brokers)	2,591	–	9,597
Commissions payable on equity capital raised	–	–	(746)
Issue of shares for assets (shares in subsidiary)	7,286	–	–
Transfers between reserves	–	27,338	–
Total comprehensive income	–	(37,475)	–
Balance at 31 December 2011	18,289	(21,473)	11,022

	Other reserves £'000	*Merger reserve £'000*	*Total equity £'000*
Balance at 1 January 2010	348	–	42
Changes in equity			
Issue of share capital	–	–	616
Total comprehensive income	(331)	–	(1,395)
Balance at 31 December 2010	17	–	(737)
Changes in equity			
Issue of share capital for cash (net of commission paid to brokers)	–	–	11,442
Commissions payable on equity capital raised	–	–	(746)
Issue of shares for assets (shares in subsidiary)	–	27,321	34,607
Transfers between reserves	(17)	(27,321)	–
Total comprehensive income	–	–	(37,475)
Balance at 31 December 2011	–	–	7,837

The notes form part of these financial statements

	Notes (see below)	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash generated from operations	1	(3,011)	(245)
Interest paid		–	(7)
Net cash from operating activities		(3,011)	(252)
Cash flows from investing activities			
Interest received		19	–
Net cash from investing activities		19	–
Cash flows from financing activities			
Shares issued for cash		11,442	117
Net cash from financing activities		11,442	117
Increase (decrease) in cash and cash equivalents		8,450	(135)
Cash and cash equivalents at beginning of year		21	156
Cash and cash equivalents at end of year		8,471	21

Notes

1. **Reconciliation of loss before income tax to cash generated from operations**

	2011	2010
Loss before income tax	(37,344)	(1,064)
Provision against diminution in value	34,830	–
Finance costs	–	7
Finance income	(19)	–
	(2,533)	(1,057)
(Increase) decrease in trade and other receivables	(34)	30
(Decrease) increase in trade and other payables	(444)	782
Cash generated from operations	(3,011)	(245)

2. **Major non-cash transactions**

During the year the company issued 728,556,730 ordinary 1 penny shares at a premium of 3.75 pence per share in consideration for the acquisition of the shares it did not already own in IM Minerals Limited.

The notes form part of these financial statements

	Notes (see below)	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash generated from operations	1	(3,011)	(245)
Interest paid		–	(7)
Net cash from operating activities		(3,011)	(252)
Cash flows from investing activities			
Interest received		19	–
Net cash from investing activities		19	–
Cash flows from financing activities			
Shares issued for cash		11,442	117
Net cash from financing activities		11,442	117
Increase (decrease) in cash and cash equivalents		8,450	(135)
Cash and cash equivalents at beginning of year		21	156
Cash and cash equivalents at end of year		8,471	21

Notes

1. **Reconciliation of loss before income tax to cash generated from operations**

	2011 £'000	2010 £'000
Loss before income tax	(37,475)	(1,064)
Provision against diminution in value	34,852	–
Finance costs	–	7
Finance income	(19)	–
	(2,686)	(1,057)
(Increase) decrease in trade and other receivables	(33)	30
(Decrease) increase in trade and other payables	(292)	782
Cash generated from operations	(3,011)	(245)

2. **Major non-cash transactions**

During the year the company issued 728,556,730 ordinary 1 penny shares at a premium of 3.75 pence per share in consideration for the acquisition of the shares it did not already own in IM Minerals Limited.

The notes form part of these financial statements

1. GENERAL INFORMATION

The company is a public limited company listed on the AIM market of the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is 60 Lombard Street, London EC3V 9EA.

The financial statements of Pathfinder Minerals PLC for the year ended 31 December 2011 were authorised for issue by the Board on 29 June 2012 and the statement of consolidated financial position signed on the Board's behalf by James Normand.

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention and are presented in the functional currency in £'000.

Although the Company's direct subsidiary, IM Minerals Limited, itself holds the whole of the issued share capital of Companhia Mineira de Naburi SARL, which in turn holds the whole of the issued share capital of Sociedade Geral de Mineracao de Moçambique SARL, events during the year indicate that the Company does not control either of these sub-subsidiaries. Neither has it been possible to obtain audited accounts for them. Accordingly these financial statements consolidate the financial statements of IM Minerals Limited only. IM Minerals Limited is a dormant intermediate holding company.

Taxation

The tax expense for the year represents the total of current taxation and deferred taxation. The charge in respect of current taxation is based on the estimated taxable profit for the year. Taxable profit for the year is based on the profit as shown in the income statement, as adjusted for items of income or expenditure which are not deductible or chargeable for tax purposes. The current tax liability for the year is calculated using tax rates which have either been enacted or substantially enacted at the balance sheet date.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets

Trade and other receivables are recognised at fair value subsequently measured at amortised cost using effective interest method, less any appropriate allowance for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short term highly liquid deposits with original maturities of three months or less.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Share capital

Ordinary shares of the company are classified as equity. Mandatorily redeemable preference shares and other classes of share where an obligation exists to transfer economic benefits are classified as liabilities.

2. ACCOUNTING POLICIES – continued

Trade payables

Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method. As the payment period of trade payables is short future cash payments are not discounted as the effect is not material.

New standards and interpretations not yet adopted

The adoption of new standards, where relevant, has had no impact on the reported results nor the financial position of the company.

Critical accounting estimates and judgements

The preparation of financial information in accordance with generally accepted accounting practice, in the case of the Group using International Financial Reporting Standards as adopted by the European Union, requires the directors to make estimates and judgements that affect the reported amount of assets, liabilities, income and expenditure and the disclosures made in the financial statements. Such estimates and judgements must be continually evaluated based on historical experience and other factors, including expectations of future events.

Details of accounting estimates and judgements that have the most significant effect on the amounts recognised in the financial statements have been disclosed under the relevant note or accounting policy for each area where disclosure is required.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the year are discussed in the notes.

3. SEGMENTAL REPORTING

The Group has one activity only. Of the Group's administrative expenses, £963,000 (2010 – nil) was spent in Mozambique. The whole of the exceptional charge in 2011 relates to the Group's investment in Mozambique. The whole of the value of the Group's and the Company's net assets in their respective financial statements at 31 December 2010 is attributable to UK assets and liabilities (2010 – £200,000).

4. EMPLOYEES AND DIRECTORS

There were no employees, other than the directors.

The following table sets out and analyses the remuneration of directors for the years ended 31 December 2010 and 2011 in £s.

	Fees	*Bonus*	*Salary*	*Gross pay*	*Contributions to pension schemes*	*Total emoluments 2011*	*2010*
	£	£	£	£	£	£	£
John McKeon	44,000	27,500	–	71,500	–	71,500	–
Nicholas Trew	1,500	–	137,500	139,000	13,750	152,750	18,000
James Normand	500		100,000	100,500	10,000	110,500	6,000
Timothy Baldwin	7,500	–	–	7,500	–	7,500	–
Gordon Dickie	16,000	–	–	16,000	–	16,000	–
Mark Edmonds	10,000	–	–	10,000	–	10,000	–
Jacinto Veloso	10,000	–	–	10,000	–	10,000	–
Gerard Lee	–	–	–	–	–	–	6,000
	89,500	27,500	237,500	354,500	23,750	378,250	30,000

No benefits in kind or bonuses were made in either year. During the year options were granted to directors. These are set out in note 16.

5. EXCEPTIONAL ITEMS

In November 2011 the original vendors of IM Minerals' subsidiary, Companhia Mineira de Naburi SARL ("CMdN"), advised the Company that they had procured the cancellation of IM Minerals' shares in CMdN and the transfer of its assets (the mining licences) to another company controlled by them. Whilst the Company is taking legal and other action in order to recover the shares and the licences, the Company, in the interest of accounting prudence, has made full provision in these financial statements against the cost of its investment in IM Minerals and against the value of advances made by the Company to CMdN and its vendors; in aggregate £34,830,000.

6. NET FINANCE INCOME

	2011	*2010*
	£'000	*£'000*
Finance income:		
Deposit account interest	19	–
Finance costs:		
Interest bearing loans and borrowings	–	7
Net finance income	19	(7)

7. LOSS BEFORE INCOME TAX

The loss before income tax is stated after charging:

Auditors' remuneration	12	12
Auditors' remuneration for non-audit work	–	25
Directors' remuneration	378	24

8. INCOME TAX

Analysis of tax expense

No liability to UK corporation tax arose on ordinary activities for the year ended 31 December 2011 nor for the year ended 31 December 2010.

Factors affecting the tax expense

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

Loss on ordinary activities before income tax	(37,344)	(1,064)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010 – 28%)	(9,896)	(298)
Effects of:		
Expenses not deductible for tax purposes	–	28
Unrelieved tax losses carried forward	9,896	270
Tax expense	–	–

9. LOSS PER SHARE

Basic loss per share is calculated, as set out in the tables below, by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

A diluted loss per share has not been calculated as the effect of the exercise of outstanding warrants and options would be anti-dilutive.

2011

	Earnings £'000	*Weighted average number of shares*	*Per-share amount pence*
Basic earnings per share			
Earnings attributable to ordinary shareholders	(37,344)	828,274,942	(4.5)

2010

	Earnings £'000	*Weighted average number of shares*	*Per-share amount pence*
Basic EPS			
Earnings attributable to ordinary shareholders	(1,064)	38,620,000	(2.8)

10. SUBSIDIARIES

	Shares in group undertakings £'000
COST	
At 1 January 2011	200
Additions	34,606
At 31 December 2011	34,806
PROVISIONS	
Provision made in the year (see note below)	34,806
At 31 December 2011	34,806
NET BOOK VALUE	
At 31 December 2011	–
At 31 December 2010	200

The Company's subsidiaries, each of which is wholly-owned, are:	*Incorporated in:*
IM Minerals Limited	England and Wales
Companhia Mineira de Naburi SARL	Mozambique
Sociedade Geral de Mineracao de Moçambique SARL	Mozambique

IM Minerals Limited owns two companies in Mozambique which hold titanium oxide mining concessions in the Republic of Mozambique. In February 2011 the Company acquired the shares of IM Minerals Limited that it did not already own. The consideration was wholly in the form of Pathfinder Minerals Plc ordinary shares. Applying the price per share at which simultaneously new shares in the Company were issued values the additional shares acquired at £34,606,445.

10. SUBSIDIARIES – continued

As noted in Note 5 above, in November 2011 the original vendors of IM Minerals' subsidiary, Companhia Mineira de Naburi SARL ("CMdN"), advised the Company that they had procured the cancellation of IM Minerals' shares in CMdN and the transfer of its assets (the mining licences) to another company controlled by them. Whilst the Company is taking legal and other action in order to recover the shares and the licences, the Company, in the interest of accounting prudence, has made full provision in these financial statements against the cost of its investment in IM Minerals.

11. TRADE AND OTHER RECEIVABLES

	Group	*Company*	*Company and Group*
	2011	*2011*	*2010*
	£'000	*£'000*	*£'000*
Other debtors	34	33	–

12. CASH AND CASH EQUIVALENTS

Bank accounts	8,471	8,471	21

13. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:		*2011*	*2010*
Number	*Class*	*£'000*	*£'000*
1,037,167,230 (2010 – 49,530,472)	Ordinary shares of 1 penny each	10,372	495
79,971,393 (2010 – 79,971,393)	Deferred shares of 9.9 pence each	7,917	7,917
		18,289	8,412

During the year the company issued the following new ordinary shares of 1 penny each:

on 9 February:

20,266,665 at a premium of 0.5 pence per share for cash on the exercise of warrants;

11,052,632 at a premium of 3.75 pence per share for cash;

728,556,730 at a premium of 3.75 pence per share in consideration for the acquisition of shares in IM Minerals Limited;

on 1 March:

2,094,065 at a premium of 3.75 pence per share for cash on the exercise of warrants;

on 17 March:

666,667 at a premium of 0.5 pence per share for cash on the exercise of warrants; and

on 22 July:

225,000,000 at a premium of 4 pence per share for cash.

14. RESERVES

The premium of £27,320,877 realised on the issue of shares in consideration for the acquisition of shares in IM Minerals Limited was credited to a merger reserve. The provision of £34,606,445 made against the diminution in the value of the Company's investment in IM Minerals has been debited to this reserve to the full extent available, with the remainder of the provision being added to the deficit on revenue reserves.

15. TRADE AND OTHER PAYABLES

	Group	*Company*	*Company and Group*
	2011	*2011*	*2010*
	£'000	*£'000*	*£'000*
Trade creditors	417	417	310
Amount owing to subsidiary	–	134	–
Other creditors	73	73	103
Accruals and deferred income	47	43	546
	537	667	959

16. SHARE OPTIONS AND WARRANTS

This table explains the movement during the year of the number of warrants and options granted over the Company's ordinary one penny shares.

Held by:	*Unexercised 1 January*	*Sold*	*Awarded*	*Exercised*	*Expired*	*Unexercised 31 December*
Directors:						
John McKeon	–	–	36,000,000	–	–	36,000,000
Nicholas Trew	3,333,333	(3,333,333)	36,000,000	–	–	36,000,000
James Normand	–	–	19,600,000	–	–	19,600,000
Timothy Baldwin	–	–	10,800,000	–	–	10,800,000
Gordon Dickie	–	–	10,800,000	–	–	10,800,000
Jacinto Veloso	–	–	1,000,000	–	–	1,000,000
Mark Edmonds	–	–	–	–	–	–
Non-directors:						
Various	24,266,665	3,333,333	9,894,065	(23,027,396)	(6,666,667)	7,800,000
Total	27,599,998	–	124,094,065	(23,027,396)	(6,666,667)	122,000,000

This table notes the exercise price and the earliest and latest exercise dates of the warrants and options still unexercised as at 31 December 2011.

Held by:	*Unexercised 31 December*	*Exercise price per share*	*Earliest exercise date*	*Latest exercise date*
Directors:				
John McKeon	36,000,000	10p	27 July 2012	26 July 2016
Nicholas Trew	36,000,000	10p	27 July 2012	26 July 2016
James Normand	16,000,000	4.75p	10 February 2012	9 February 2021
James Normand	3,600,000	10p	27 July 2012	26 July 2016
Timothy Baldwin	10,800,000	10p	27 July 2012	26 July 2016
Gordon Dickie	10,800,000	10p	27 July 2012	26 July 2016
Jacinto Veloso	1,000,000	10p	27 July 2012	26 July 2016
Non-directors:				
Various	6,000,000	4.75p	9 February 2011	8 February 2016
Various	1,800,000	10p	27 July 2012	26 July 2016

16. SHARE OPTIONS AND WARRANTS – continued

At the point when trading in the Company's shares on AIM was suspended, the mid-market price of the Company's shares was 3 pence. The value of the options granted to directors and others, in connection with the reverse takeover and the ongoing development of the company, has been considered in the context of the requirements of IFRS 2; and in the opinion of the directors there is no material charge to be made to the income statement.

There have been no changes to the numbers of unexercised warrants and share options since 31 December 2011.

17. RELATED PARTY DISCLOSURES

During the year the Company paid £2,400 to International Mercantile Group Limited, a company in which Nicholas Trew and Gordon Dickie each have a material interest, and £30,000 to Tomilly Limited, a company in which John McKeon has a material interest, each for the provision of office services.

Directors were reimbursed sums totalling £18,725 for personal expenditure incurred on Company business.

18. CONTINGENT LIABILITIES

As part of the agreement for the purchase of the shares in its subsidiary, Companhia Mineira de Naburi SARL ("CMdN"), the Company's subsidiary, IM Minerals Limited, agreed to pay the vendors a further sum of $9,900,000 if, following further exploration and appraisal, an agreement is reached for the construction of a facility for the processing of ore extracted from the Naburi mineral sands deposit. This sum has since been reduced by advances of £90,083, made by IM Minerals Limited, and £75,933, made by the Company, to one of the vendors, Mr Diogo Cavaco.

Similarly, as part of its agreement for the purchase of the whole of the issued share capital of Sociedade Geral de Mineracao de Moçambique SARL, CMdN has agreed to pay the vendors, BHP Billiton, a further sum of $9,500,000 if, following further exploration and appraisal, an agreement is reached for the construction of a facility for the processing of ore extracted from the Moebase mineral sands deposit. This obligation is guaranteed by IM Minerals Limited.

19. EVENTS AFTER THE REPORTING DATE

Since the year-end, and as noted in the Chairman's Statement, the Board has concentrated its energies on attempting to recover the Group's assets expropriated by General Veloso and Mr Cavaco. As a direct result of these efforts, considerable legal and related costs have been incurred which have contributed materially to the reduction in the Group's cash reserves to approximately £6.1 million (at the date of this report).