Strategic Minerals

Our Market is Magnetite

A Year of Delivery

for Shareholders, Stakeholders and Customers

Strategic Minerals Plc Annual Report 2012
For the year ended 31st December

LSE: SML.L
www.strategicminerals.net

Contents

Forward-Looking Statement

This Annual Report contains 'forward-looking information', which may include, but is not limited to, statements with respect to the future financial and operating performance of Strategic Minerals Plc, its subsidiaries, production and exploration operations and affiliated companies, the future price of magnetite/iron ore, the estimation of mineral resources, the realisation of mineral resource estimates, costs of production, capital and exploration expenditures, costs and timing of the development of new deposits, costs and timing of the development of new mines, costs and timing of future exploration, requirements for additional capital, governmental regulation of mining operations and exploration operations, stockpile and tailings dam operations, timing and receipt of approvals, licenses, permits, conversions and ongoing approvals to operate exploration activities, stockpile and tailings dam operations under The United States of America, Australia and other applicable mineral legislation and environmental legislation, environmental risks, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of pending litigation and regulatory matters.

Often, but not always, forward-looking statements can be identified by the use of words such as 'plans', 'expects', 'is expected', 'budget', 'scheduled', 'estimates', 'forecasts', 'intends', 'anticipates' or 'believes', or variations (including negative variations) of such words and phrases, or state that certain actions, events or results 'may', 'could', 'would', 'might' or 'will' be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Strategic Minerals Plc and/or its subsidiaries, investment assets and/or its affiliated companies to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; stockpile processing/tailings dam operations; conclusions of economic evaluations and studies; fluctuations in the value of UK pounds sterling relative to the United States Dollar, Australian Dollar and other foreign currencies; changes in project parameters as plans continue to be refined; future prices of magnetite/iron ore; possible variations of ore grade or recovery rates; failure of plant, logistics providers, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; political instability, insurrection or war; the effect of illness on labour force availability and turnover; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although Strategic Minerals Plc has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may well be other factors that cause actions, events or results to differ from those currently anticipated, estimated or intended.

Forward-looking statements contained herein are made as of the date of this Annual Report and Strategic Minerals Plc disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein.

Our Business

Strategic Minerals Plc (AIM: SML; USOTC: SMCDY) is highly focused on developing a business centred on bringing into production magnetite tailings assets located in low-risk geopolitical regions. Strategic Minerals currently holds iron ore stockpile assets in North America and exploration properties in Australia.

In 2012 the Company commenced production at its first magnetite operation, the Cobre stockpile in New Mexico and intends to develop a number of other projects within the same segment. The Cobre Stockpile has been assessed to JORC standards and is estimated to contain over 1.5 million metric tonnes of magnetite.

Our strategy is to grow a portfolio of tailings stockpile projects and operations to unlock the value contained in the tailings, deliver natural resources to our customers and achieve sustainable profitability for our shareholders.

Positive cash flows from the Cobre stockpile will be used to support long-term asset increase as Strategic Minerals looks to acquire additional resources within the tailings arena.

Highlights

We achieved our 2012 objectives in full, as Strategic Minerals transitioned from project developer to magnetite supplier to the global marketplace as operations at our Cobre stockpile moved into full-scale production. Sales to United States domestic customers at mine gate commenced in 2012 and our first export shipment was completed in November.

Revenue

£3.75m

2011: nil

Gross Profit

£903,000

2011: nil

Off-take Contract

800,000

wet metric tonnes to be supplied to Glencore AG.

Operational Performance

- Key development milestones reached, with completion of rail upgrade at Cobre in June, first test shipment to the Port of Guaymas, Mexico, in August and first export market shipment of 48,000 dry metric tonnes ("DMT") to Glencore AG in November
- Off-take contract secured with Glencore for supply of an initial 800,000 wet metric tonnes ("WMT")
- Sales to domestic customers commenced in 2012 with truck sales at the mine gate
- Exploration results at Iron Glen, Queensland from 30+ hole drill programme indicate the presence of lead, silver, copper and zinc in addition to magnetite
- Detailed evaluation and review of Australian exploration assets completed with rationalisation programme commencing, looking to reduce the burden of early-stage green-field tenements and extract value from the promising ones

Financial Performance

- £2.9 million, net new equity raised in May 2012
- Total revenues of £3.75 million generated from both US domestic and export sales
- Further £4.2 million, net equity raised in February 2013

Our Strategy

Strategic Minerals focuses on extracting value from mineral stockpiles in manageable low-risk mining regions. The overriding ambition is to achieve superior returns from stockpiles and tailings.

The Company seeks near-term marketable magnetite production assets away from high risk, volatile and geographically challenging regions while seeking to release the embedded value in the Company's exploration assets. Investments are driven purely by the quality of each opportunity and potential for value upside.

The following strategic priorities define our business:

Produce

Achieve consistent magnetite shipments from the Cobre stockpile to the domestic and export markets.

Sustain

Generate earnings and positive cash flow from the Cobre stockpile and re-invest cash returns to optimise operational development and shareholder value.

Grow

Secure additional magnetite stockpiles to increase our resource base and life of operations. Assess each project against stringent investment criteria, including anticipated return on investment, revenues, operational and logistics costs, inherent risks and risk mitigation measures.

Executive Chairman's Report

Strategic Minerals achieved key milestones in 2012, driven by a commitment to commence full-scale production at the Cobre stockpile in New Mexico, increase resource knowledge across our portfolio of Australian exploration-stage projects and build sustainable value for shareholders.

US$3.5m
Rail refurbishment completed at Cobre in 2012.

100t
Rail car shipments are now possible from Cobre.

48,000
Dry metric tonnes of magnetite exported to Glencore AG in November 2012.

These achievements were accomplished against a backdrop of continued high levels of economic volatility across world markets and uncertain commodity demand in the world's major markets. Debt issues in the euro zone, fragile recovery in the United States and concerns over decelerating growth levels in China and other emerging global economies have contributed to a challenging near-term demand environment.

In the face of these challenges, I am pleased to report that Strategic Minerals performed well during 2012. Following my appointment as Executive Chairman and the appointment of Paul Harrison as Chief Executive Officer in May 2012, we embarked upon a near-term goal of achieving full-scale production at the Company's operations in New Mexico and a comprehensive evaluation of its exploration assets in Australia. While I focused on the Company's operations in New Mexico, Mr. Harrison focused on a detailed review of our pipeline of exploration iron ore assets in Queensland, Western Australia and the Northern Territory of Australia, raising funds to deliver vital working capital for the Company and communication with our shareholders and the wider investing community.

Activities at the Cobre stockpile were strengthened by the conclusion of the Glencore off-take supply contract and the completion of the South Western Railroad rail-spur upgrade. By ensuring the efficient loading and shipment of delivery-ready magnetite at Cobre, Strategic Minerals has successfully established a low-cost, cash generative operation that benefits from a solid customer base and is well positioned to achieve export sales in 2013 totalling approximately 600,000 dry metric tonnes. Strategic Minerals is uniquely positioned to become a relevant supplier to the global iron ore market.

Our Cobre operations provide the launch pad from which Strategic can pursue the acquisitions of additional magnetite stockpiles and create long-term value. In that regard, Strategic Minerals has a very good relationship with the Cobre mine owner Freeport-McMoRan, which we believe puts Strategic Minerals in a good position to secure rights to the additional tailings at Cobre if they become available, as well as potential opportunities at other FreePort-McMoRan mines.

Magnetite production: Cobre

Our Cobre operations in New Mexico are now in full-scale production.

Strategic Minerals' delivery-ready stockpile of high-grade magnetite at the Cobre stockpile, located at Fiero in southern New Mexico, is the by-product of mining the copper-gold-molybdenum copper porphyry deposit until the mine's closure in 2000. The beneficiated magnetite stockpile has a JORC Compliant Resource of 800,000 tonnes at a grade of 64.2% Fe and 770,000 tonnes at 59.1% Fe, and is highly saleable in its existing state.

The Cobre magnetite material is a treated by-product of copper mining and milling activities from the 1970s. After being processed through ball mills to grind the rock down to sand size (P80 of 90 micron), the magnetite was recovered by magnetic separation to form a magnetite concentrate. The magnetite has been stockpiled in a dam for over 20 years and contains minor and very thin seams of clay.

The clay seams, along with trace amounts of other minerals like garnet, reduce the iron grade of the product. The clay and other minerals are liberated and easily removed during the screening process that Strategic Minerals has established on site.

The magnetite concentrate is non-hazardous and there is a full environmental permit at Cobre that enables the free scoop, screen and logistics operation to be undertaken unhindered. The material is a high-grade magnetite feed stock suitable for blending with lower iron grade or coarser size materials to improve plant efficiencies and throughput rates. The milling process reduced the particle size down to 40-150 micron. Therefore, the effort and energy required to refine the magnetite product into a saleable product has already been made.

Through the efforts of our team in New Mexico initial shipments took place early in 2012 with trucks collecting the magnetite for domestic US consumers at mine gate, thus providing early cash flow for the project, and our first export shipment was achieved in November.

The most significant development step came with the rehabilitation of the 6.3-mile (10-kilometre) rail-spur link in June 2012, which enabled Strategic Minerals to commence the supply of magnetite to the export market. The spur upgrade included the installation of tie replacements, crossing and point changes, some track replacement and re-ballasting and alignment.

The first test shipment by rail was completed ahead of schedule in August 2012. This eight rail car shipment to the Port of Guaymas in Mexico was undertaken to verify key equipment, processes and procedures ahead of full-scale commercial rail shipments, and to ensure robust, efficient rail freight operations. I am pleased to note that the Strategic Minerals operational team quickly resolved all of the minor operational glitches and equipment issues that were encountered.

Having proven the logistics chain, Strategic Minerals focus turned to satisfying the terms of the commercial contract signed with Glencore AG, a subsidiary of world-leading commodity supplier Glencore International plc, which calls for the supply of 800,000 WMTs (approximately 770,000 DMT) and underlines the strength of the Company's business model as a developer of value adding, delivery-ready resources.

The Glencore contract, first signed in March 2012, was renegotiated in the latter half of the year to facilitate our first export in November 2012 and again in January 2013 to facilitate regular shipments going forward. The November shipment of 48,000 DMT of magnetite was the first export shipment to be effected through the Port of Guaymas, and was a hugely important milestone for the Company, marking the end of the development stage and the commencement of full-scale production.

Throughout 2013 we intend to complete shipments averaging approximately 50,000 DMT per month. In 2012 we delivered over 20,000 tonnes of magnetite to US domestic customers at the mine gate in addition to the 48,000 DMT sold to Glencore AG.

Total revenues of £3.75 million were achieved in 2012 resulting in a gross profit of £0.9 million in our maiden year of operations at Cobre.

The 2012 achievements at Cobre have demonstrated our ability to acquire and develop projects to deliver shareholder upside. Supplying high volumes of magnetite ore to commercial customers through the export market will enable us to increase our revenues significantly in 2013 and beyond.

Governance

Board composition is an essential component in effective corporate governance and on-going strategic planning. I was pleased to join Strategic Minerals' board in the capacity of Executive Chairman in May 2012, at the same time as Paul Harrison was appointed Chief Executive Officer. The year also saw the appointments of David Anderson as Finance Director and George Cardona, who joined the board as Non-executive Director.

Steven Sanders, who was previously Chairman of the Company, stepped down in May 2012 and remained with the Company as a Non-executive Director until April 2013. Meanwhile, Executive Director Matthew Bonthrone and Non-Executive Director Alex Borrelli chose not to stand for re-election at the Annual General Meeting in June 2012 in order to focus on their other business interests. On behalf of the board, I would like to extend my thanks to Steven, Matthew and Alex, who made substantial contributions to the development of Strategic Minerals, particularly in bringing the Company to the AIM market in 2011.

The board strives to achieve effective decision-making and value-adding results on behalf of the Company's shareholders. The new executive composition of board members has an appropriate balance of skills and experience required to ensure the continued fast-track development of Strategic Minerals in the global iron ore sector and will as opportunities arise be strengthened and enhanced. We are currently actively seeking additional non-executive directors with appropriate skills and experience.

Outlook and prospects

Despite the challenges of operating within a volatile natural resource commodity environment, and concerns in some quarters regarding the near-term future of steel-making output in China, the US and other major manufacturing economies, the outlook for Strategic Minerals remains very encouraging. The Glencore off-take contract and other existing sales relationships in the US give the Company a stable platform for growth.

We expect to sell 600,000 DMT to the export market during the year ending 31st December 2013 whilst continuing sales to the local market.

Strategic Minerals remains committed to its strategy of efficiently utilising capital to generate substantial upside and position the Company for future growth. As we progress through 2013, I remain optimistic about the prospects for our industry and our company in particular.

I take this opportunity to thank our hard working and dedicated team, and acknowledge the support provided to the Company by our stakeholders, suppliers and customers.

James Fyfe
Executive Chairman
24 May 2013

Chief Executive Officer's Report

2012 was a year of strong operational development for Strategic Minerals at the Cobre stockpile, including the completion of the rail spur upgrade and the achievement of full production output from Q4.

1.57mt

Total magnetite resource at the Cobre stockpile.

1.77mt

Indicated resource containing iron (30.2%), silver (11 g/t) and copper (0.11%) at Iron Glen.

We are now well positioned to expand delivery in 2013 to an average of 50,000 DMT per month, under the Glencore off-take contract and additional sales are expected to continue to domestic customers.

Less than 18 months after our June 2011 listing on AIM, Strategic Minerals has realised its immediate ambition of becoming a major supplier of magnetite ore to the world's industrial markets.

We have reached this position by targeting shareholder value on four fronts:

- First, a programme of productivity and operational efficiency at Cobre
- Second, the successful completion of a large-scale sales supply contract with a global commodities trader
- Third, a detailed review of our pipeline of exploration iron ore assets in Queensland, Western Australia and the Northern Territory of Australia and
- Fourth, securing funding for careful allocation to meet the working capital needs of the Company through its operational growth phase

Value has been created through:

- The commercial contract concluded with Glencore AG to deliver 800,000 WMT of magnetite concentrate, giving Strategic Minerals a stable sales outlet that mitigates risk
- Completing the US$3.5 million refurbishment of the rail spur line to the Cobre mine for bulk 100-ton rail car shipments
- On-going production increases through 2012, culminating in the first export market shipment of 48,000 DMT in November

These milestones demonstrate Strategic Minerals' technical and operational capabilities as a developer and asset manager of large-scale mine stockpiles. Revenues and experience generated at Cobre establish a stable platform for success as Strategic Minerals looks to acquire rights over additional magnetite stockpiles.

Iron ore exploration: Australia licences

Whilst the ramping up of operations at Cobre has been our focus, we have worked to access the most efficient way of releasing value from the portfolio of exploration properties. Management have taken a fundamental decision that in the current climate the main focus of the Company has to be the development of its core cash producing tailings activities and not in expending significant cash exploring early stage "green field" tenements. As a result the Company is now in the process of rationalising its exploration portfolio.

The most significant of the Company's exploration assets is the Iron Glen property in Queensland. In addition, the Company holds a number of other tenements including Jotanooka and Dragon Rocks tenements (Western Australia) and the Roper River and Hodgson tenements (Northern Territory). These latter tenements were acquired in the

Ebony Iron acquisition, which was completed in particular to acquire the Cobre tailings asset. Following a detailed review of these tenements working in conjunction with the Company's independent geological mine consultants, Terra Search, the decision was taken to rationalise the portfolio by reducing the Company's exposure to low-grade, uneconomic licenses, thereby reducing the on-going cost of maintaining these non-prospective assets.

As a result, the Company is in the process of completing the relinquishment of the Dragon Rocks tenements back to the state as well as some of the tenements within the Hodgson and Roper licenses. Thereafter, the Company will turn its attention to the Jotanooka tenements. These moves will reduce the burden of exploration expenditure and allow the focus to shift towards maximising the value of the Iron Glen property.

Iron Glen remains the Company's core exploration prospect. Located approximately 40 kilometres from the deep water Port of Townsville, the 2,100-hectare tenement has been subject to extensive magnetic and geochemical analysis since Strategic Minerals acquired the exploration permit in 2007. A 45-hole drilling programme has returned a JORC compliant resource estimate (Terra Search Pty Ltd) over the Iron-Silver-Copper deposit. Indicated resources comprise 1.77 million tonnes of 30.2% iron, 11.0 grams per tonne (g/t) silver and 0.11% copper. A further 0.15 million tonnes at 19.6% iron is included in the Inferred category, at a cut-off grade of 0.15% iron.

Terra Search Pty was commissioned to conduct exploration on the Iron Glen site in both 2010 and 2011. The 2010 programme consisted of 11 reverse circulation percussion drill holes totaling 1258 metres, drilled along the north-west strike of the ground magnetic anomaly, coincident with the abandoned Iron Glen open pit. The 2011 programme in-filled and marginally extended the earlier programme. The 2011 drilling consisted of 34 holes with total drill meterage of 4452 metres that includes 3648 metres of reverse circulation percussion (RC) and 804.95 metres of core drilling.

Total drilling completed at the Iron Glen polymetallic skarn amounts to 45 holes, totalling 5710 metres, including 4906 metres RC and 804.95 metres core.

Geological, geochemical and geophysical data from these programmes was utilised to calculate at Iron Glen resources to JORC standards, announced on 21 February 2012. Highlights included:

- Drill indicated resource at 15% cut-off confirmed by independent consultants as 1.77 million tonnes @ 30.2% Iron (Fe)
- The indicated resource and adjacent inferred resource of 0.15 million tonnes at 19.6 % Fe resulted in a total resource of 1.92 million tonnes @ 29.3% Iron (Fe), 0.10% Copper (Cu) and 10.3g/t Silver (Ag)
- Consultants have estimated through preliminary Davis Tube Testwork that Iron Glen contains an Inferred in ground resource of 630,000 tonnes of potential magnetite concentrate
- In addition to the drill indicated resources referred to above an inferred resource of 2.9 million tonnes @ 13.1 g/t Ag occurs peripheral to the magnetite skarn using a Ag cut-off of 5 g/t Ag
- Total Silver in-situ indicated and inferred resource estimate is 4.82 million tonnes @ 12.0 g/t Ag (1.86 million ounces)
- Applying prices as of February 2012 to these magnetite and silver resources resulted in an estimated in-situ value in the order of ~A$140M (this figure is to be used as a guide only)
- Separately from the magnetite skarn deposit at Iron Glen a silver-lead-zinc deposit has been identified 2 kilometres northwest along strike referred to as the Lead Belly Prospect.

These results provide a positive platform for Strategic Minerals to continue to examine the best way to exploit the asset going forward.

Test work suggests that Iron Glen contains an inferred in-situ resource of 630,000 tonnes of potential magnetite concentrate. The project benefits from good and improving regional infrastructure. Iron Glen is 10 kilometres west of the main railway line and the Flanders Highway that connect the mining/industrial complex of Mt Isa to Townsville. The deep-water port at Townsville is less than 40 kilometres from Iron Glen by rail. A major electricity transmission line traverses 3 kilometres north of Iron Glen.

Subject to further resource profiling and positive economic assessment work, the aim is to continue project development in advance of a decision as to how best to extract value from the asset.

Concluding comments

Strategic Minerals has made significant progress over the last 12 months, moving from being a pre-production, cash consuming business to being soundly funded and in full-scale commercial production. Against the challenges being confronted, in the sector, by traditional junior exploration companies, Strategic has now set down a different path, to maximise the profitability of its first core producing asset and to continue to identify new opportunities in the tailings arena.

Working with major participants in the global resources sector, the Company has demonstrated its ability to deliver a quality product to the market place. Whilst prices have fluctuated over the last year, and the market faces some challenges in the near-term, we expect to see stabilisation in the magnetite and wider iron ore sector over the medium-term. Strategic Minerals is well positioned to take advantage of future production, acquisition and project development opportunities.

Paul Harrison
Chief Executive Officer
24 May 2013

Market Review

Strategic Minerals operates in the magnetite sector, part of the iron ore and related ferrous markets, which is the second largest bulk commodity market after crude oil.

Historically, closed-door negotiations between major mining houses and steelmakers governed the iron ore (and magnetite) spot and contract markets. Effective 1st April 2010, pricing moved to short-term index-based mechanisms, following the trend towards market-based commodity pricing systems. In broad terms, the magnetite price for steelmaking applications tracks the 62% iron ore spot price, with premiums being paid for increased iron ore content. Typically, that premium is circa US$5/% iron/tonne over hematite feed stock (Fe_2O_3). Heavy media magnetite (typically having an iron content of between 67% and 70%) has the highest premium, with medium grade magnetite (circa 65% iron) sold at a lower price and magnetite grading less than 65% iron lower still.

Prices are determined not only by the grade of the magnetite, but also by its market use. There are four major market segments that have the potential to purchase magnetite from Strategic Minerals. These are:

1. US domestic industrial purchasers, including the agri-chemical and fertiliser sector, burial vaults, and the concrete, water filtration and petrochemical industries. Typical requirements are for lower-grade magnetite
2. US steel mills, typically requiring high-grade magnetite
3. International purchasers, including traders and steel mills. Typical requirements vary from low-grade to higher iron content magnetite
4. US domestic and international coals sectors, which utilise magnetite as heavy media for coal preparation plants to separate coal from unwanted materials. The density of the product controls the desired specific gravity; the heavy media must also have strong magnetics, so it can be reclaimed using magnetic separators. Typical requirements are for high-grade magnetite (above 67% iron)

Market demand

Strategic Minerals' magnetite contains iron grades that are sufficiently high to satisfy domestic and international demand for all but high-grade magnetite. In addition to the Company's off-take contract with Glencore AG, there is stable demand at the mine gate from US customers from a broad range of industrial sectors, primarily in the speciality and custom processed markets segment.

Whilst magnetite is a commonly occurring mineral, there are few magnetite mines in the US. The most profitable magnetite iron ore deposits in the United States can be found at Minnesota's Mesabi Iron Range, Michigan's Lake Erie, lower Lake Michigan and the New York Adirondack Mountains. Smaller US deposits are located in North Carolina, Pennsylvania, Oregon, Colorado, New Mexico, Utah, Virginia and New Jersey. Magnetite bearing iron formations are mined extensively in Brazil, which exports significant quantities to Asia, and there is a large and developing magnetite iron ore industry in Australia.

Cobre is particularly well positioned to offer competitive pricing to consumers located in the Southwest of the United States and, since the operation does not require costly beneficiation to produce magnetite ore, offers substantial cost efficiencies compared to North American and international primary magnetite mines.

Broader pricing

The global growth in iron ore usage, combined with falling grades reported at many hematite mines, has pushed up the magnetite price in recent years. China is the world's largest consumer of iron ore, with growing demand being driven by the urbanisation of China's population and the growth in Chinese industrial output. In recent years, Chinese steel manufacturers have taken strategic positions in Australian iron ore companies, with a particular trend to invest in existing and potential magnetite producers in order to acquire dependable, high-grade feed for their operations. China's annual crude steel output passed 1.3 billion tonnes in 2011.

Having peaked at US$177 per tonne in September 2011, prices fell to less than US$100 per tonne in September 2012, despite the mid-year peak of US$148 per tonne recorded in April. The decline in spot iron ore prices in H2 2012 was large by historic standards, fuelled by global over-supply of iron ore and by concerns that Chinese industrial growth may be slowing, and spent many weeks below what had been considered to be the floor price threshold of US$120 per tonne. Several mines, including some developing magnetite mines, were taken out of production/development as a result of these concerns.

However, there is evidence that near-term pricing has recovered, buoyed by signs of policy-led recovery in Chinese growth demand, with pricing as of January 2013 passing the US$150 per tonne mark. Despite this, the major world economies remain largely week and the outlook on commodity prices is dependent on their recovery. As a result, the longer-term outlook remains subdued.

Strategic Minerals, however, has a number of factors working in its favour, including:

- Dependable sales through the Glencore contract
- Stable market demand from US consumers, including speciality and custom processed markets segment
- No mine development or refining costs: the magnetite at Cobre is delivery-ready and suitable for most end uses with minimal further processing
- The cutting back of supply at primary magnetite mines should bolster prices from existing producers

About magnetite

Magnetite (Fe_3O_4) is the most magnetic mineral found in nature. In its natural ore form, magnetite usually has a grade of between 25% and 40% iron, and requires downstream processing, including crushing, screening, grinding, magnetic separation, filtering and drying, before its is suitable as high-grade feed (upwards of 66% iron) in the steel-making industry.

A multi-purpose coal processing and industrial additive product that meets or exceeds the most stringent quality standards of the various industries, magnetite concentrate grades are generally in excess of 63% iron by weight and usually are low phosphorus, low aluminium, low titanium and low silica.

Since magnetite has internal thermal energy, it requires less energy than hematite in the steelmaking process and, as a result, produces less carbon dioxide emissions. In 2010, magnetite accounted for approximately 30% of global iron furnace feed for steel production.

Magnetite can also be used for any purpose where additional weight, density, or magnetics are required. Specifically, applications include:

- As an industrial water filtration agent
- In the manufacture of magnets
- As a heavy aggregate in concrete construction
- As a filler in plastic polymer and rubber production
- As a soil fertiliser in agriculture
- For weight (ballast) in maritime purposes including ships & off-shore oil rigs
- As an additive in paint products to achieve red and brown pigments
- For radiation and electromagnetic field shielding

Financial Review

Strategic Minerals is pleased to report an inaugural gross profit of £903,000 achieved in the 2012 reporting year, which follows the commencement of production at Cobre and sales made through the year to domestic customers at mine gate and through our first export shipment under the terms of our off-take contract.

£903,000

Gross profit achieved in 2012 as a result of operations.

The purpose of this review is to provide more information about the Company's consolidated 2012 results and the main factors affecting the financial performance. The Financial Review should be read in conjunction with the financial statements and associated notes, which appear on pages 27 to 63 of this report.

Revenue and Gross Profit

The year was defined by our first export shipment in November 2012 together with the ramp up of domestic sales in 2012, generating total sales of £3,754,000 for the year.

Our cost of sales comprises the processing of the tailings at the Cobre site, the loading onto trucks (for domestic sales) or rail cars (for export sales), sampling and testing the magnetite, royalties payable to Freeport on a per ton basis of magnetite leaving mine-gate, and port receiving, storing and loading costs. Export sales are made on a FOB basis and the selling price of our export sales is by reference to the Platts IODEX 62% Fe China CFR price less shipping costs and buyer commission.

One additional factor to take into account is currency movements. All our sales and cost of sales are denominated in US dollars, whereas our presentational currency for the time being is Pounds sterling. In November and December the Pound was trading strongly against the dollar, rising beyond the 1.60 mark towards the end of the year and with a rate around the 1.58 mark being used as an average for translating our income statement. In our case therefore a weakening of the Pound improves our reported gross profit.

Non-cash and non-recurring items

The year has been impacted by a number of significant non-cash and non-recurring items which need further explanation.

Amortisation and depreciation

As explained more fully in Note 3 we have recorded a prior year adjustment in the 2012 financial statements to correct a number of errors made in the 2011 financial statements. Chief among these was the accounting for the acquisition of Ebony Iron Pty Limited ("Ebony") in September 2011.

Two issues arose: the calculation of the consideration paid; and the appropriate description of the main asset acquired. The consideration was settled in full by the issue of 94,000,000 ordinary shares in the Company. In such cases the fair value of the consideration is based on the share price at the acquisition date; not the price implied by the contract. Originally, goodwill was the asset recognised in 2011 but in reality the reason for the acquisition was largely to obtain the benefit of the contract entered into by Southern Minerals Group LLC, an entity wholly owned by Ebony, for the exclusive rights to market a magnetite stockpile at the Cobre mine in New Mexico. Accordingly that is the nature of the asset; and thus that is the intangible asset now recognised. Unlike goodwill however, the resultant intangible asset must be amortised.

The result of these changes generated a non-cash charge to the Income statement of £810,000 for the year to 31 December 2012, although in part reduced by a release of the Deferred tax creditor of £198,000.

In addition we commenced depreciation of the cost of rehabilitating the spur railroad infrastructure to the mine to reflect the use of the railroad as we commenced transportation of the magnetite to port.

Share based payments
In 2012 new warrants of 39,062,500 were issued to participants in an equity placement and 12,000,000 warrants were issued to a third party advisor to the Company. The charge for the year was £95,000.

Exploration and evaluation expenditure
As has been stated in the preceding reports, our primary focus is on maximising value from our US operations.

We continue to believe that the Iron Glen tenements have significant value, but we have been carefully reviewing the true value of the assets acquired following the acquisition of Ebony (the Northern Territory ("NT") Tenements) and the follow on acquisition of the Western Australia ("WA") Tenements following the acquisition from Quadrio Resources Pty Ltd in January 2012.

The NT and WA tenements were acquired predominantly by the issue of shares and in the year to 31 December 2012 additional spend totalled £113,000. As a result of decisions taken to relinquish or not pursue extensions following the expiry of license terms, the total carrying value of £835,000 has been charged to the Income statement in the year.

This is clearly a non-recurring item; but as the majority of the cost arose from the issue of shares, it is also largely non-cash.

Administrative expenses
As will also be clear from the preceding reports, the year has been one of transition. As such there are a number of costs incurred in the year which will not recur. The total of such costs arising in 2012 was circa £1,000,000.

Financing

In February the Company refinanced AUD1.2m of the AUD1.8m loan which was due for repayment on 31 December 2011 and under the terms of the arrangement entered into a new £950,670 convertible loan note repayable in December 2014. This debt remained outstanding at 31 December 2012 but subsequent to the year-end £790,670 was renegotiated to be settled in full by instalments by 31 December 2013 together with the balance of a loan denominated in Australian dollars.

In May the Company raised a total of £3,125,000 before expenses from a Placement of 39,062,500 new ordinary shares.

In late 2012, following our first export sale, the Company financed its working capital through short term bridge loans which were paid in full post year end following the successful February 2013 Equity Placement which raised £4,200,000 net of expenses

Conclusion

As previously stated, 2012 has been a year of transition. I hope the foregoing enables you to better understand the financial outcomes for the year.

David Anderson
Finance Director
24 May 2013

Adjusted Financial Summary (£'000)

Loss from operations – as reported	(4,279)
Non-cash items	
Amortisation of intangible asset	810
Depreciation of tangible assets	86
Share-based payments	95
Cash loss from operations before interest	(3,288)
Non-recurring items	
Exploration and evaluation expenditure	835
Adjusted cash and recurring loss from operations before interest	**(2,453)**

Risk management

Whilst risk is inevitable in the business of natural resource development and transportation, it is possible to manage risks to minimise their impacts. Strategic Minerals has created a risk management system that enables us to pursue opportunities and achieve shareholder value, as well as developing our portfolio and maintaining our reputation.

Our principal risks and uncertainties relate to operational, financial, personnel and environmental risks. We also face risks associated with magnetite pricing and the challenge to deliver on shareholder expectations.

Strategic Minerals regularly reviews the principal risks that face the business and assesses appropriate responses to mitigate and, where possible, eliminate potential adverse impact. The key risks and uncertainties that face the Company are presented below, together with the relevant risk mitigation strategies.

Risk	Mitigation/Comment	Potential Impact	Further Information
Strategic Risks			
Permits, licences, tenure and contracts			
Companies operating as exploration-stage project operators, and operators of stockpiles and/or tailings, require various licences and permits, and to hold secure tenure over the assets that underpin their valuation, operational capability and ability to explore, mine, process and transport their product to generate economic returns. Failure to secure and maintain the relevant licences and permits may result in the loss of assets.	Strategic Minerals ensures that its licences and permits are maintained in compliance with the relevant jurisdiction laws and requirements. Strategic Minerals can call upon the services of geological consultants, tenure management advisors and legal advisory to ensure documentation is correctly held and due process is followed. The Company operates under the Freeport-McMoRan licenses and permits at Cobre.	Low	Strategic Minerals has contracted rights to sell the Cobre stockpile. The stockpile is accessed under an agreement between the Company and Freeport-McMoRan (NYCE: FCX). The Company's Australian properties are located in regions with established tenure, licencing and permitting precedent, and as classified as low-risk political jurisdiction profiles by AON Risk.
Reserve and resource estimates			
Mineral reserve and resource estimates are based on several assumptions, including geological and metallurgical assumptions. There can be no assurance that the anticipated tonnages or grades will be achieved, particularly at early-stage exploration projects.	Resources at Cobre have been subjected to extensive resource evaluation. Mineral reserves and resources estimates will be updated regularly at the Company's Australian licences as exploration and resource delineation programmes progress, and be prepared to internationally recognised code compliant standards.	Low	Independent accredited experts prepare all resource estimates on behalf of the Company. Resource estimates are low-risk at Cobre. As a stockpile resource, the magnetite at Cobre can be assessed in relation to quality and quantity on a dependable basis compared to exploration discoveries.

Financial Risks

Risk	Mitigation/Comment	Potential Impact	Further Information
Commodity Prices Strategic Minerals' financial performance is dependent on the market price of magnetite. Adverse movement in the commodity price could have a material impact on operations.	The Company outsources the majority of its operations and thus is well placed to manage its cost base relative to the prevailing market prices. The Company also has the ability to cease production if the market price falls below an acceptable level.	Medium	The Cobre Stockpile is a low-cost operation compared to the majority of magnetite mines that process magnetite from primary ore. As a result, the Strategic Minerals' operation competes well with its supply peers and can remain profitable even in times of reduced commodity prices.
Liquidity Strategic Minerals needs finance both to manage its working capital requirements and fund new projects as the Company seeks to grow. If the Company is not able to obtain sufficient financial resources, it may not be able to raise sufficient funds to develop new projects.	The Board strives to ensure liquidity through corporate actions and ownership of positive cash flow projects. To date this has been provided by short-term funding and equity placements. Provided commodity prices stay at profitable levels and we are able to continue a steady flow of shipments and domestic sales the need to finance this working capital is low.	Low	The Company has been successful in raising funds to date. With regular shipments in progress, revenues generated at Cobre are expected to mitigate liquidity risk.

Personnel risks

Risk	Mitigation/Comment	Potential Impact	Further Information
Management Loss of key management personnel can impact on the Company's strategic and operational functionality.	Strategic Minerals has identified and engaged independent experts to provide the necessary technical expertise and uses independent contractors to undertake key operational tasks.	Medium	
Skills availability Skills shortages have been a feature of mine development across the board. The inability to attract suitably skilled individuals in the vicinity of Strategic Minerals' operations can impact on the quality and efficiency of the work performed.	Management will implement retention strategies, including competitive wage arrangements as and when required.	Medium	
Health and safety The exploitation and transportation of natural resources, and exploration activities, are inherently hazardous. Failure to adopt high levels of safety management can result in a number of negative outcomes, including bodily harm to employees and contractors, and damage to the Company's reputation.	Strategic Minerals works under the Freeport McMoRan health and safety certificate at the Cobre site. Health and safety procedures are adopted at all project sites and all personnel, including contractors, are trained in site-specific procedures. Workplace Health and Safety measures are monitored to ensure compliance.	High	All contractors on site are required to demonstrate that they hold current insurance policies covering the relevant aspects of health and safety. Employees work under a stringent health and safety policy.

Risk	Mitigation/Comment	Potential Impact	Further Information

Environmental Risks

Environmental impact

Unforeseen environmental degradation resulting from the Company's activities may result in liability and/or the requirement to undertake extensive remedial clean-up actions.	All operational planning takes environmental issues and responsibilities into account. Third parties are contracted to identity environmental risks and mitigation measures, wherever required.	Medium	All exploration projects will be required to secure environmental permitting. The Cobre operation is fully environmentally permitted.

External Risks

Political, legal and regulatory developments

Strategic Minerals may be affected by political or regulatory developments in the countries and jurisdictions in which it operates, including to changes to fiscal and other regulatory measures.	The Company focuses its operations on stable, mining friendly countries, and liaises with government departments on various aspects of its operations on a regular basis. Strategic Minerals monitors the political landscape to keep abreast of likely changes in regulatory policies, both national and international.	Low	Both Cobre and Strategic Minerals' exploration-stage properties are located in regions with low-risk political jurisdiction profiles as classified by AON Risk.

Community relations

Disputes may arise with local communities, causing disruption to projects or operations.	Strategic Minerals is committed to the establishment of close working relationships with communities in the areas in which it operates.	Low	The Cobre Stockpile is located in an area with long mining traditions; the community understands the benefits and requirements of ore extraction and transportation.

Board of Directors

James Fyfe

Chairman

James Fyfe is a highly experienced business consultant in the natural resources sector, who has advised public and private companies in Europe, Africa, Australia, Central America, Russia and the former Soviet Union. His particular focus is on strategic, operational and financial planning, corporate structuring and debt and equity financings. Mr Fyfe is currently a director of Riverwide Capital Partners Ltd, More House Trust Limited, Tower Investment Corporation Limited, Countdown Solutions Limited and Eden First Limited.

Paul Harrison

Chief Executive Officer

Paul Harrison began his career at the oil and resource specialist firm Wood Mackenzie & Co before progressing to become a director of County Natwest Woodmac and subsequently Executive Vice President in the UK/European division of Salomon Brothers Inc. Since 1994 he has successfully advised a wide range of companies, both private and public, primarily in the natural resources sector. These have had a broad mineral and geographical spread and covered operations in multiple African countries, Central America, Australia, Russia and the FSU. Over the period he has raised significant funding for clients.

David Anderson

Finance Director

David Anderson qualified as a chartered accountant with BDO LLP in 1990 and was admitted to the partnership in 1998. He remained with BDO until 2009 where he progressed to Lead Partner, responsible for a 120 staff audit team. After leaving BDO David was appointed as Interim Finance Director of Hakkasan Limited, owner of two Michelin starred restaurants in London. In November 2010 he joined Crowe Clark Whitehill LLP as an Audit and Advisory Partner. Mr Anderson is or has been a director of several companies and partnerships within the past 5 years, including Alithia LLP and Fairfield Opportunity Farm (Dilton) Ltd. Former directorships/ partnerships within the past 5 years are Crowe Clark Whitehill LLP and BDO LLP.

Patrick Griffiths

Director

Patrick Griffiths holds a BCom (Merit) from the University of New South Wales, an MBA from the University of Sydney and is a Member of National Institute of Accountants (MNIA). Mr Griffiths has experience in a variety of industries ranging from agriculture, building and construction, chemicals, finance, manufacturing, mining, quarries and technology.

Mr Griffiths' mining industry experience extends from prior to 1973. He was a Director and then Managing Director of a mining group listed on the Johannesburg Stock Exchange, Awande Holdings Limited, with two operating mines and one exploration project in Namibia. In more recent times Mr Griffiths was a Director and General Manager of the Australian based subsidiaries of AIM quoted Sirius Exploration Plc.

Mr Griffiths' roles have included managing director, general manager, chief financial officer, business advisor and analyst, financial planner and logistics manager.

George Cardona

Independent Non-Executive Director

Mr Cardona has extensive experience in strategic advice, finance and general management having served as a board member for a range of finance and natural resources companies.

An Oxford University graduate and formerly a Special Adviser to the British Treasury, Mr Cardona spent the first half of his career in banking and politics before spending 15 years with HSBC performing several managerial roles around the world. In 2000 he left HSBC and formed Cardona Lloyd & Co, a corporate finance advisory and asset management company, which he ran for 7 years. From 2006 he became a Director and eventually Chairman of Linea Limited, a privately owned company with interests in companies such as OJSC EuroChem Mineral and Chemical Company, OJSC Siberian Coal Energy Company and K+S AG, Germany (a DAX-30 listed mining company). He has been a director of a number of other listed companies both in the UK and around the world, including Renewable Energy Generation Limited and Martin Currie Pacific Trust plc.

Report of the Directors

For the year ended 31 December 2012

The Directors present their report and the audited financial statements for the Group for the year ended 31 December 2012.

Principal Activities, Business Review and Future Developments

The Company was formed on 16 November 2010 as Strategic Minerals Limited ("SM") and re-registered to a public limited Company on 9 February 2011. On 8 June 2011 the Company gained admission to the Alternative Investment Market (AIM) of the London Stock Exchange.

The Company is a public limited Company registered in the UK whose registered office is Finsgate, 5 – 7 Cranwood Street, London EC1V 9EE.

The Company is engaged in the sale of magnetite iron ore from a tailings deposit at the Cobre mine in New Mexico, and holds a number of exploration-stage assets in Australia.

A review of the Group's business during the financial year and its likely development is given in the preceding Chairman's, Chief Executive's and Finance Director's Reports.

The Company was set up as a holding Company for Iron Glen Holdings Limited ("IGH"), a Company registered and operating in Australia. SM acquired its 100% interest in IGH by way of a share for share exchange which was accounted for as a Group reorganisation in the Group accounts for the period ended 31 December 2011.

On the 2 September 2011, the Company acquired 100% of Ebony Iron Pty Limited ("Ebony"), an Australian registered Company by the allotment and issue of 94,000,000 shares in SM to Ebony's shareholders. Ebony owned a 100% interest in Southern Minerals Group LLC, a US incorporated entity which has exclusive rights to market a magnetite stockpile held at the Cobre mine in New Mexico.

In the year to 31 December 2012 the Company completed its first US domestic and export sales of magnetite following the successful conclusion of a contract for sale with a subsidiary of Glencore International PLC.

In 2013 the Company is focussed on achieving annual export sales of approximately 600,000 dry metric tonnes (DMT).

Results and Dividends

The Group recorded a loss after taxation for the year of £4,358,000.

The Directors do not propose to recommend any distribution by way of dividend for the period ended 31 December 2012.

Financial Risk Management Objectives and Policies

The Directors constantly monitor the financial risks and uncertainties facing the Group with particular reference to its exposure to Platts IODEX 62% Fe CFR China price, foreign currency and liquidity risks. The Directors are confident that suitable policies are in place and that all material financial risks have been considered. Further details are provided in Note 4 to the financial statements.

Key Risks and Uncertainties

These are considered in detail under risk management on pages 16 to 18.

Key Performance Indicators

The Group monitors its key performance indicators (KPI's) on a regular basis. For most of 2012 the principal KPI has been the level of cash spend. With the commencement of sales in the year, monitored KPI's now include tons processed and held at mine or port; costs per ton and movements in the Platts IODEX 62% Fe CFR China price as this is used to calculate the invoiced value of goods sold.

Directors

The Directors who served the Company during the period were as follows:

Matthew D. Bonthrone	(resigned 26 June 2012)
Steven Sanders	(resigned 25 April 2013)
Patrick Griffiths	
M. Alex Borrelli	(resigned 26 June 2012)
George S Cardona	(appointed 26 March 2012)
James J Fyfe	(appointed 30 May 2012)
Paul L Harrison	(appointed 30 May 2012)
David M Anderson	(appointed 1 October 2012)

Directors' Interest in Shares

The persons who held office at the year-end had the following interests in the issued share capital of the Company (ordinary shares of 0.1p nominal value):

Steven Sanders	615,854
Patrick Griffiths	5,275,005
George S Cardona	14,084,030

Options held by the Directors are as follows:

	No. of ordinary shares	**Exercise Price**
Patrick Griffiths	6,409,989	£0.031
Steven Sanders	11,684,994	£0.031

Directors' Remuneration and Service Contracts

Under their respective service contracts, the Executive Chairman, Chief Executive Officer, Chief Financial Officer and the Non-Executive Directors are entitled to receive relevant fees, as detailed in the Directors' Remuneration in Note 7.

Pensions

The Group does not operate a pension scheme and has not paid any contributions to any pension scheme for Directors or employees.

Report of the Directors

For the year ended 31 December 2012

Substantial Shareholders

As at 23 May 2013, shareholdings of 3% or more of the issued share capital notified to the Company were:

	Number of 0.1p ordinary shares	Percentage of issued share capital
Half Shell Holdings	180,901,250	32.66
Chase Nominees Limited and Chase (GA Group) Nominees Limited	32,334,445	5.84
James Chisholm	31,419,092	5.67
Leo Knifton	23,369,988	4.22
Credit Suisse Client Nominees Limited and FITEL Nominees Limited	20,700,000	3.74

Creditor Payment Policy

The Company's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the Group's contractual and other legal obligations.

The creditor's days as at 31 December 2012 were 50 days.

Political and Charitable Contributions

There were no political or charitable contributions made by the Group during the period ended 31 December 2012.

Information to Shareholders - Website

The Company has its own web-site www.strategicminerals.net for the purposes of improving information flow to shareholders, as well as to potential investors.

Going Concern

As disclosed in Note 1 to the financial statements, the Directors consider that they have adequate funds to meet the Group's working capital requirements for the period to 30 June 2014. As at 31 December 2012 the Company had cash resources of £763,000 and total borrowings of £3,010,000, the latter in large part to provide working capital to fund the shipments of magnetite. In February 2013 the Directors raised £4.2m (net of expenses) by way of a placement of new shares. With shipments now having been successfully completed in 2013 the Directors consider the Group has adequate financial resources for its immediate needs. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Relations with Shareholders

The Board attaches great importance to maintaining good relationships with shareholders. The Board regards the Annual General Meeting as an opportunity to communicate directly with investors, who are encouraged to attend and participate.

Indemnity of Officers

The Group currently maintains insurance to cover against legal action brought against its Directors and officers. However, the Group may purchase and maintain, for any Director or officer, insurance against any liability in the near future pending the evolution and complexity of any further new projects undertaken by the Company.

Events After the End of the Reporting Period

Refer to Note 25 to the financial statements for further details.

Publication of Accounts on Company Website

Financial statements are published on the Company's website. The maintenance and integrity of the website is the responsibility of the Directors. The Directors' responsibility also extends to the financial statements contained therein.

Statement of Directors' Responsibilities

For the year ended 31 December 2012

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have, as required by the AIM Rules for Companies of the London Stock Exchange, elected to prepare the Group and parent financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in 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 Group and of the profit and loss 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 estimates that are reasonable and prudent;
- state whether the Group and parent Company financial statements have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group 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, at the time of approval of their report, are aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution proposing that Jeffreys Henry LLP be reappointed as auditors of the Group will be put to the Annual General Meeting.

Statement of Corporate Governance

For the year ended 31 December 2012

The Board

The aim of the Board is to function at the head of the Group's management structures, leading and controlling its activities and setting a strategy for enhancing shareholder value. Meetings are held to review the Group's forward planning. The Board currently consists of four Executive and one Non-Executive Director. The Directors recognise the importance of sound corporate governance commensurate with the size and nature of the Company and the interests of its shareholders and seek to comply in all material respects with the Corporate Governance Guidelines for Smaller Quoted Companies. The Group has established an Audit Committee, with formally delegated duties and responsibilities. The Group does not have a Nominations Committee or Remuneration Committee with the Board collectively undertaking the function of such committees.

The purpose of the Audit Committee, which is chaired by George Cardona, is to provide formal and transparent arrangements for considering how to apply the financial report and internal control principles set out in the Corporate Governance Guidelines for Smaller Quoted Companies, and to maintain an appropriate relationship with the Company's auditors. The key terms are as follows:

- to monitor the integrity of the financial statements of the Company and Group, and any formal announcement relating to the Company's performance;
- to monitor the effectiveness of the external audit process and make recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditors;
- to keep under review the relationship with the external auditors including (but not limited to) their independence and objectivity; and
- to keep under review the effectiveness of the Company's financial reporting and internal control policies and systems

Internal Control

The Board has overall responsibility for ensuring that the Group maintains systems and internal financial controls that provide them with reasonable assurance regarding the financial information, both for use within the business and for external publication, and that the Group's assets are safeguarded. The Board is in the process of evaluating a means for identifying, evaluating and managing the principal risks faced by the Group. The Board will regularly review such a process.

By order of the Board

David M Anderson
Director
24 May 2013

Report of the Auditors

For the year ended 31 December 2012

Independent Auditor's Report to the Shareholders of Strategic Minerals Plc

We have audited the Group and parent Company financial statements (the "financial statements") of Strategic Minerals Plc for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statement of Cash Flows, the Consolidated and Parent Company Statement of Changes in Equity 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 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 financial and non-financial information in the Executive Chairman's Report, Chief Executive Officer's Report, Market Review, Financial Review, Statement of Corporate Governance and 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 the parent Company's affairs as at 31 December 2012 and of the Group's loss and the Group and parent Company's cash flow 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.

Opinion on the other matters 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.

Report of the Auditors (continued)

For the year ended 31 December 2012

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.

For and on behalf of

Jeffreys Henry LLP
Statutory Auditor
Finsgate
5-7 Cranwood Street
London EC1V 9EE

Sanjay Parmar
Senior Statutory Auditor
24 May 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	Year to 31 December 2012 £'000	As restated Period to 31 December 2011 £'000
Continuing operations			
Revenue		3,754	-
Cost of sales		(2,851)	-
Gross profit		**903**	-
AIM admission expenses		-	(581)
Share based payment		(95)	(1,257)
Expenses on acquisition of Ebony Iron Pty Limited		-	(258)
Exploration and evaluation expenditure		(835)	-
Amortisation of intangible asset	3,12	(810)	-
Administrative expenses	6	(3,442)	(1,310)
Loss from operations		**(4,279)**	(3,406)
Finance income	8	-	24
Finance expense	8	(714)	(33)
Loss before taxation		**(4,993)**	(3,415)
Income tax credit	9	635	-
Loss for the period		**(4,358)**	(3,415)
Other comprehensive income			
Exchange (losses) / gains arising on translation of foreign operations		(676)	571
Total comprehensive income		**(5,034)**	(2,844)
Loss for the period attributable to:			
Owners of the parent		(4,358)	(3,415)
Total comprehensive income attributable to:			
Owners of the parent		(5,034)	(2,844)
Loss per share attributable to the ordinary equity holders of the parent:			
Continuing activities - Basic and diluted	11	(1.00)p	(1.22)p

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 £'000	As restated 2011 £'000
Assets			
Non-current assets			
Intangible assets	12	16,280	17,950
Property, plant and equipment	13	2,003	1,519
Deferred tax asset	19	437	-
		18,720	19,469
Current assets			
Inventories	14	1,722	-
Trade and other receivables	15	1,097	503
Cash and cash equivalents	16	763	299
		3,582	802
Total Assets		**22,302**	**20,271**
Issued capital and reserves attributable to owners of the parent			
Share capital	20	448	399
Share premium reserve		20,914	17,102
Merger reserve	3	12,483	12,483
Foreign exchange reserve		(105)	571
Share options reserve	21	1,352	1,257
Other reserves		(14,363)	(14,363)
Accumulated loss		(7,953)	(3,595)
Total Equity		**12,776**	**13,854**
Liabilities			
Non-current liabilities			
Loans and borrowings	17	951	-
Deferred tax liability	19	3,791	4,168
		4,742	4,168
Current liabilities			
Loans and borrowings	17	2,059	1,500
Trade and other payables	18	2,725	749
		4,784	2,249
Total Liabilities		9,526	6,417
Total Equity and Liabilities		**22,302**	**20,271**

The accompanying accounting policies and notes form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 24 May 2013 and were signed on its behalf by:

David M Anderson
Director
Company Registration No. 07440902 (England and Wales)

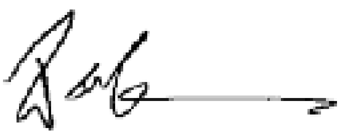
Company Statement of Financial Position

As at 31 December 2012

	Notes	2012 £'000	As restated 2011 £'000
Assets			
Non-current assets			
Investments	12	31,209	28,395
Property, plant and equipment	13	4	-
Deferred tax	19	350	-
		31,563	28,395
Current assets			
Trade and other receivables	15	2,673	948
Cash and cash equivalents	16	360	275
		3,033	1,223
Total Assets		**34,596**	**29,618**
Issued capital and reserves attributable to owners of the parent			
Share capital	20	448	399
Share premium reserve		20,914	17,102
Merger reserve	3	12,483	12,483
Share options reserve	21	1,352	1,257
Accumulated loss		(4,292)	(2,303)
Total Equity		**30,905**	**28,938**
Liabilities			
Non-current liabilities			
Loans and borrowings	17	951	-
Current liabilities			
Loans and borrowings	17	2,059	-
Trade and other payables	18	681	680
		2,740	680
Total Liabilities		3,691	680
Total Equity and Liabilities		**34,596**	**29,618**

The accompanying accounting policies and notes form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 24 May 2013 and were signed on its behalf by:



David M Anderson

Director

Company Registration No. 07440902 (England and Wales)

Consolidated Statement of Cash Flow

For the year ended 31 December 2012

	Notes	Year to 31 December 2012 £'000	As restated Period to 31 December 2011 £'000
Cash flows from operating activities			
Loss before tax		(4,993)	(3,415)
Adjustments for:			
Depreciation of tangible fixed assets		86	1
Amortisation of intangible assets		810	-
Exploration and evaluation expenditure		835	-
Loss on disposal		11	-
(Increase) in inventory		(1,722)	-
(Increase) in trade and other receivables		(680)	(58)
Increase in trade and other payables		1,845	521
Share based payment expense		95	1,257
Finance expense		714	33
Finance income		-	(24)
Cash absorbed by operating activities		**(2,999)**	**(1,685)**
Finance income	8	-	24
Finance expense	8	(111)	(33)
Net cash absorbed by operating activities		**(3,110)**	**(1,694)**
Investing activities			
Acquisition of subsidiary, net of cash acquired	12	-	122
Acquisition of intangible fixed assets		(113)	(876)
Acquisition of tangible fixed assets		(646)	(1,436)
Cash absorbed by investing activities		**(759)**	**(2,190)**
Financing activities			
Net proceeds from issue of equity share capital		3,006	2,283
Net proceeds from borrowings		1,335	1,499
Net cash from financing activities		**4,341**	**3,782**
Net increase / (decrease) in cash and cash equivalents		**472**	**(102)**
Cash and cash equivalents at beginning of period		299	410
Effects of exchange rate changes on the balance of cash held in foreign currencies		(8)	(9)
Cash and cash equivalents at end of period		**763**	**299**

The accompanying accounting policies and notes form an integral part of these financial statements.

Company Statement of Cash Flow

For the year ended 31 December 2012

	Notes	Year to 31 December 2012 £'000	As restated Period to 31 December 2011 £'000
Cash flows from operating activities			
Loss before tax		(2,339)	(2,303)
Adjustments for:			
Impairment to receivables from subsidiary undertakings		585	-
(Increase) in trade and other receivables		(648)	(948)
Increase in trade and other payables		83	680
Share based payment expense		95	1,257
Finance expense		714	33
Finance income		-	(24)
Cash absorbed by operating activities		**(1,510)**	**(1,305)**
Finance income	8	-	24
Finance expense	8	(111)	(33)
Net cash absorbed by operating activities		**(1,621)**	**(1,314)**
Investing activities			
Acquisition of tangible assets		(4)	-
Cash absorbed by investing activities		**(4)**	**-**
Financing activities			
Net proceeds from issue of equity share capital		3,006	1,589
Net proceeds from borrowings		1,488	-
Advances to subsidiary undertakings		(2,784)	-
Net cash from financing activities		**1,710**	**1,589**
Net increase in cash and cash equivalents		**85**	**275**
Cash and cash equivalents at beginning of period		275	-
Cash and cash equivalents at end of period		**360**	**275**

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital £'000	Share premium reserve £'000	Merger reserve £'000	Share options reserve £'000	Other reserves £'000	Foreign exchange reserve £'000	Accumulated loss £'000	Total equity £'000
Balance as at 30 November 2010	**-**	**715**	**-**	**46**	**-**	**-**	**(180)**	**581**
Loss for the period						-	(3,415)	(3,415)
Foreign exchange translation						571	-	571
Total comprehensive income for the period						571	(3,415)	(2,844)
Shares issued in the year	305	16,387	-	-	-	-	-	16,692
Shares issued for acquisition of Ebony Iron Pty (restated – Note 3)	94	-	12,483	-	-	-	-	12,577
Share based payments (restated – Note 3)	-	-	-	1,211	-	-	-	1,211
Group reorganisation	-	-	-	-	(14,363)	-	-	(14,363)
Balance at 31 December 2011 (as restated)	**399**	**17,102**	**12,483**	**1,257**	**(14,363)**	**571**	**(3,595)**	**13,854**
Loss for the year						-	(4,358)	(4,358)
Foreign exchange translation						(676)	-	(676)
Total comprehensive income for the year						(676)	(4,358)	(5,034)
Shares issued in the year	49	4,031	-	-	-	-	-	4,080
Expenses of share issue	-	(219)	-	-	-	-	-	(219)
Share based payments	-	-	-	95	-	-	-	95
Balance at 31 December 2012	**448**	**20,914**	**12,483**	**1,352**	**(14,363)**	**(105)**	**(7,953)**	**12,776**

All comprehensive income is attributable to the owners of the parent.

Share capital is the amount subscribed for shares at nominal value. Share premium reserve represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.

Merger reserve arises from the 100% acquisition of Ebony Iron Pty Limited on 2 September 2011 whereby the excess of the fair value of the issued ordinary share capital issued over the nominal value of these shares is transferred to this reserve, in accordance with section 612 of the Companies Act 2006.

Share option reserve relates to increases in equity for services received in equity-settled share based payment transactions.

Other reserves consist of an adjustment arising from the Group reorganisation in 2011 being the formation of a new holding Company for Iron Glen Holdings Limited by way of a share for share issue, and is the difference between consideration given and net assets of the Company at the date of acquisition. Foreign exchange reserve occurs on consolidation of the translation of the subsidiaries balance sheets at the closing rate of exchange and their income statements at the average rate. Accumulated loss represents the cumulative loss of the Group attributable to equity shareholders.

The accompanying accounting policies and notes form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital £'000	Share premium reserve £'000	Merger reserve £'000	Share options reserve £'000	Accumulated loss £'000	Total equity £'000
Balance as at 30 November 2010	**-**	**-**	**-**	**-**	**-**	**-**
Loss for the period					(2,303)	(2,303)
Total comprehensive income for the period					(2,303)	(2,303)
Shares issued in the year	305	17,102	-	-	-	17,407
Shares issued for acquisition of Ebony Iron Pty (restated – Note 3)	94	-	12,483	-	-	12,577
Share based payments (restated – Note 3)	-	-	-	1,257	-	1,257
Balance at 31 December 2011 (as restated)	**399**	**17,102**	**12,483**	**1,257**	**(2,303)**	**28,938**
Loss for the year					(1,989)	(1,989)
Total comprehensive income for the year					(1,989)	(1,989)
Shares issued in the year	49	4,031	-	-	-	4,080
Expense of share issue	-	(219)	-	-	-	(219)
Share based payments	-	-	-	95	-	95
Balance at 31 December 2012	**448**	**20,914**	**12,483**	**1,352**	**(4,292)**	**30,905**

All comprehensive income is attributable to the owners of the parent Company.

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2012

1. Significant accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

Going concern basis

These financial statements have been prepared on the assumption that the Group is a going concern.

When assessing the foreseeable future, the Directors have looked at the Group's working capital requirements for the period to 30 June 2014. At 31 December 2012 the Group had net current borrowings of £1,296,000 and net current liabilities of £1,202,000. In February 2013 the Company successfully completed a Placement of shares raising £4.2m (net of expenses) the proceeds of which in part was used to settle borrowings and trade payables at year end.

After making enquiries, the Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Were the Group to be unable to continue as a going concern, adjustments may have to be made to the statement of financial position of the Group to reduce the statement of financial position values of assets to their recoverable amounts, to provide for future liabilities that might arise and to reclassify non-current assets and long-term liabilities as current assets and liabilities.

New and amended standards adopted by the Company

There are no IFRS's or IFRIC interpretations that are effective for the first time in this financial period that would be expected to have a material impact on the Group.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- IFRS 9, Financial Instruments: Classification and Measurement, as issued reflects the first phase of the IASB work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The adoption of the first phase of IFRS 9 might have an effect on the classification and measurement of the Company's assets. At this juncture it is difficult for the Company to assess the potential impact on its financial position and performance.

There are no other IFRS's or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Basis of consolidation

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

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

Goodwill
Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, re-measured subsequently through profit or loss. Direct costs of acquisition are recognised immediately as an expense.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Impairment of non-financial assets (excluding inventories)
Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest Group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units (‘CGUs’). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Externally acquired intangible assets
Externally acquired intangible assets are initially recognised at cost and subsequently amortised over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual or legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below)

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Exploration and evaluation assets
The Group has continued to apply the ‘successful efforts’ method of accounting for Exploration and Evaluation (“E&E”) costs, having regard to the requirements of IFRS 6 ‘Exploration for the Evaluation of Mineral Resources’.

The successful efforts method means that only the costs which relate directly to the discovery and development of specific mineral reserves are capitalised. Such costs may include costs of license acquisition, technical services and studies; exploration drilling and testing but do not include costs incurred prior to having obtained the legal rights to explore the area. Under successful efforts accounting, exploration expenditure which is general in nature is charged directly to the income statement and that which relates to unsuccessful exploration operations, though initially capitalised pending determination, is subsequently written off. Only costs which relate directly to the discovery and development of specific commercial mineral reserves will remain capitalised and to be depreciated over the lives of these reserves. Exploration and evaluation costs are capitalised within intangible assets. Costs incurred prior to obtaining legal rights to explore are expensed immediately to the income statement.

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible or property, plant and equipment according to their nature. Intangible assets comprise costs relating to the exploration and evaluation of properties which the Directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to tangible assets as ‘Developed mineral assets’ following an impairment review and depreciated accordingly. Where properties are appraised to have no commercial value, the associated costs are treated as an impairment loss in the period in which the determination is made.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

Costs are amortised on a Tenement by Tenement unit of production method based on commercial proven and probable reserves.

Contractual relationship

The contractual relationship recognised as a result of the acquisition of Ebony Iron Pty Limited (see Note 3) has been valued using estimated discounted cash flow and is being amortised over the term of the contract.

Property, plant and equipment

The annual rate of depreciation for each class of depreciable asset is:

Office equipment – 3 years straight line
Leasehold improvements – 10 years straight line
Rail infrastructure – on a per ton basis for inventory transported by rail in the year

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to the statement of comprehensive income.

Investments

Investments are stated at cost less provision for any impairment in value.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Revenue

Revenue from the sale of magnetite is recognised when the Group has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Group will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer, being the point of shipment for export sales and the point of leaving the mine gate for domestic sales to the US market.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Taxation

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the same income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax
Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group Company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Fair values
The carrying amounts of the financial assets and liabilities such as cash and cash equivalents, receivables and payables of the Group at the statement of financial position date approximated their fair values, due to the relatively short term nature of these financial instruments.

Share-based compensation
The fair value of the employee and suppliers services received in exchange for the grant of options and warrants is recognised as an expense. The total amount to be expensed over the vesting year is determined by reference to the fair value of the options and warrants granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options and warrants that are expected to vest. At each statement of financial position date, the entity revises its estimates of the number of options and warrants that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options and warrants are exercised.

The fair value of share-based payments recognised in the statement of comprehensive income is measured by use of the Black Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted; based on management's best estimate, for the effects of non-transferability, and exercise restrictions. The share price volatility percentage factor used in the calculation is based on management's best estimate of future share price behaviour and is selected based on past experience, future expectations and benchmarked against peer companies in the industry.

Equity instruments
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Provisions
Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

Financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs.

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Exchange gains and losses arising on the retranslation of monetary available for sale financial assets are treated as a separate component of the change in fair value and recognised in profit or loss. Exchange gains and losses on non-monetary available for sale financial assets form part of the overall gain or loss recognised in respect of that financial instrument.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Management of capital

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group arise in respect of the costs of financing working capital as inventory is built up prior to sale.

The Board receives cash flow projections on a monthly basis as well as information on cash balances. The Board will not commit to material expenditure prior to being satisfied that sufficient funding is available to the Group to finance the planned programmes.

2. Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements

(a) Revenue recognition

The eventual price invoiced for export sales is determined based on a formula linked to the Platts IODEX 62% Fe CFR China in months following the month of sale and quality analysis post loading. For 2012 the amount recorded as revenue is the final agreed invoice value so no judgement has been applied in recording revenue for the year. In future periods an estimate of future Platts IODEX 62% Fe CFR China price may be necessary in determining the amount of revenues recognised.

Estimates and assumptions

(b) Carrying value of intangible assets

In assessing the continuing carrying value of the exploration and evaluation costs carried the Company has made an estimation of the value of the underlying tenements and exploration licenses held for which further details are given in Note 12.

In assessing the continuing carrying value of the other intangible asset, being the contractual relationship acquired on the acquisition of Ebony Iron Pty Limited, the key estimate and assumption made in the valuation model adopted has been estimated Platts IODEX 62% Fe CFR China price over the term of the contract. The quantity of material is known and our direct costs have been assumed to be fixed at current levels. The variable is thus the market price of magnetite for both 62% Fe and the discount for the lower grade material at 59% Fe. The material we have been granted exclusive rights over contains in total approximately 800,000 tonnes at 64.2% Fe and approximately 770,000 tonnes at an average grade of 59.1% Fe. These future prices cannot be forecast with certainty as changes are determined by reference to external market forces. The price range used in considering whether impairment arises in management's estimates is based on the range of available external forecasts.

(c) Share based payments

The fair value of share based payments recognised in the income statement is measured by use of the Black Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted; based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The share price volatility percentage factor used in the calculation is based on management's best estimate of future share price behaviour based on past experience, future expectations and benchmarked against peer companies in the industry.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

3. Prior-year adjustment

During the year the Directors commenced a review of the accounting for the acquisition of Ebony Iron Pty Limited in 2011. Concurrently the Conduct Committee of the Financial Reporting Council ("FRC") raised a number of queries regarding the accounting for the transaction and other matters. As a result of our review and correspondence with the FRC the Directors have concluded on the need to restate the 2011 comparatives amounts to these accounts as shown below.

A reconciliation of the comparative amounts previously stated in the consolidated statements to re-stated comparative amounts for the consolidated statement of comprehensive income and consolidated statement of financial position is provided below. A detailed description of each adjustment then follows. There is no restatement required of the consolidated statement of financial position at the beginning of 2011.

	As previously stated £'000	**Adjustments £'000**	**Restated £'000**
Assets			
Non-current assets			
Goodwill	8,744	(8,744)	-
Intangible assets	1,281	16,669	17,950
	10,025	7,925	17,950
Property, plant and equipment	1,519	-	1,519
	11,544	7,925	19,469
Current assets			
Trade and other receivables	503	-	503
Cash and cash equivalents	299	-	299
	802	-	802
Total Assets	**12,346**	**7,925**	**20,271**
Equity and liabilities			
Share capital	399	-	399
Share premium reserve	26,408	(9,306)	17,102
Merger reserve	-	12,483	12,483
Foreign exchange reserve	(9)	580	571
Share options reserve	1,062	195	1,257
Other reserves	(14,363)	-	(14,363)
Accumulated loss	(3,400)	(195)	(3,595)
Total Equity	**10,097**	**3,757**	**13,854**
Liabilities			
Current liabilities			
Loans and borrowings	1,500	-	1,500
Trade and other payables	749	-	749
	2,249	-	2,249
Non-current liabilities			
Deferred tax liability	-	4,168	4,168
Total Equity and Liabilities	**12,346**	**7,925**	**20,271**

	As previously stated £'000	Adjustments £'000	Restated £'000
Revenue	-	-	-
Cost of Sales	-	-	-
Gross profit	**-**	**-**	**-**
AIM admission expenses	(581)	-	(581)
Share based payments	(1,062)	(195)	(1,257)
Expenses on acquisition of Ebony Iron Pty Limited	(258)	-	(258)
Administrative expenses	(1,310)	(195)	(1,310)
Loss from operations	**(3,211)**	**(195)**	**(3,406)**
Finance income	24	-	24
Finance expense	(33)	-	(33)
	(3,220)	(195)	(3,415)
Income tax benefit/(expense)	-	-	-
Loss for the period	**(3,220)**	**(195)**	**(3,415)**

Prior-year adjustments description

(a) Revision to acquisition accounting for Ebony Iron Pty Limited

On 2 September 2011 the Company acquired 100% of the issued share capital of Ebony Iron Pty Limited by the issuance of 94,000,000 ordinary shares in the Company. In the accounts to 31 December 2011 the fair value of the consideration was calculated using 10p per share, being the amount stated in the acquisition agreement, and the difference between this consideration and the fair value of the identifiable net assets acquired was treated as goodwill.

IFRS 3 (Revised) Business combinations require the consideration transferred in a business combination to be measured at the acquisition date fair value. On 2 September 2011 the market price of the Company's shares was 13.38p. The use of 10p per share was thus an error. The increase in the fair value of the consideration of £3,177,000 is reflected in the table above. This also gives rise to an adjustment to the Company statement of financial position (see below) to increase the carrying value of the cost of investment.

Following a reassessment of the net assets acquired the Directors have concluded that an intangible asset should have been recognised being a contract entered into by a wholly owned subsidiary of Ebony Iron Pty Limited, Southern Minerals Group LLC, pursuant to which it had the exclusive rights to market a magnetite stockpile held at the Cobre mine in New Mexico, as referred to in other parts of these financial statements. The fair value of this contract at the date of acquisition has been assessed as £15,895,000 with the result that no goodwill now arises from this acquisition.

In accordance with IAS 21 The effects of changes in foreign exchange rates, the carrying value of the intangible asset has been expressed in the functional currency of Southern Minerals Group LLC, being the US dollar, and translated at closing rate which has resulted in the foreign exchange adjustments reflected in Notes 12 and related Note 19, Deferred tax.

(b) Revision to deferred tax

A deferred tax liability of £4,168,000 has been recognised in respect of the temporary difference arising on the intangible asset recognised on the acquisition of Ebony Iron Pty Limited (see (a) above).

(c) Accounting for a Merger reserve

As the Company acquired over 90% of the equity holding in Ebony Iron Pty Limited, section 612 of the Companies Act 2006 applies and requires the difference between the fair value of consideration received and nominal value of the shares issued to be transferred to a Merger reserve rather than the Share premium reserve. After adjusting for the £3,177,000 noted in (a) above an amount of £12,483,000 has been transferred to the Merger reserve. This also gives rise to a similar adjustment to the Company statement of financial position as shown below.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

(d) Revision to share-based payment expense

In the period to 31 December 2011 warrants were issued to various suppliers in settlement of services provided and share options granted to certain of the Group's Directors and key management personnel. In valuing these warrants and options using the Black-Scholes option pricing model an expected volatility of 10% was used. In the opinion of the Directors this was inappropriate and an appropriate rate would be 55%. This has led to the share based payment charge for 2011 increasing by £195,000 to £1,257,000.

(e) There was no effect on the consolidated statement of cash flow as a result of the above amendments other than to increase the loss before tax and the amount of share based payment expenses shown in the reconciliation to cash absorbed by operating activities.

The impact on the Company statement of financial position is set out below.

	As previously stated £'000	Adjustments £'000	Restated £'000
Assets			
Non-currents assets			
Investments	25,218	3,177	28,395
Currents assets			
Trade and other receivables	948	-	948
Cash and cash equivalents	275	-	275
	1,223	-	1,223
Total Assets	**26,441**	**3,177**	**29,618**
Equity and liabilities			
Share capital	399	-	399
Share premium reserve	26,408	(9,306)	17,102
Merger reserve	-	12,483	12,483
Share options reserve	1,062	195	1,257
Accumulated loss	(2,108)	(195)	(2,303)
Total Equity	**25,761**	**3,177**	**28,938**
Liabilities			
Current liabilities			
Trade and other payables	680	-	680
Total Equity and Liabilities	**26,441**	**3,177**	**29,618**

4. Financial instruments - Risk management

The Group is exposed the following financial risks:

- Credit risk
- Foreign exchange risk
- Other market price risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from last year unless otherwise stated in this note.

Principal financial instruments
The principal financial instruments used by the Group, from which financial instrument risk arises, are:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Loans and borrowings

A summary of the financial instruments held by category is provided below:

Financial Assets	**Loans and receivables**	
	2012	**2011**
	£'000	**£'000**
Group		
Cash and cash equivalents	**763**	299
Trade and other receivables	**963**	403
Total financial assets	**1,726**	702

Financial Liabilities	**Financial liabilities at amortised cost**	
	2012	**2011**
	£'000	**£'000**
Group		
Trade and other payables	**2,708**	739
Loans and borrowings	**3,010**	1,500
Total financial liabilities	**5,718**	2,239

Financial Assets	**Loans and receivables**	
	2012	**2011**
	£'000	**£'000**
Company		
Cash and cash equivalents	**360**	275
Trade and other receivables	**561**	4
Amounts owed by subsidiary undertakings	**4,706**	850
Total financial assets	**5,627**	1,129

Financial Liabilities	**Financial liabilities at amortised cost**	
	2012	**2011**
	£'000	**£'000**
Company		
Trade and other payables	**665**	410
Loans and borrowings	**3,010**	-
Total financial liabilities	**3,675**	410

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

4. Financial instruments - Risk management (continued)

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

Further disclosures regarding trade and other receivables, which are neither past due nor impaired other than shown, are provided in note 15.

Fair value and cash flow interest rate risk

All of the Group's and Company's borrowings are at fixed rate.

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their own functional currency (being Pound Sterling, US dollar and Australian dollar) with the cash generated from their own operations where possible in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

The parent Company maintains US dollar and Pounds sterling bank accounts. Sales to the export market are invoiced by the parent Company in US dollars, and in the year the parent Company entered into loans denominated in both US dollar and Australian dollars.

All receivables and payables are settled at the prevailing spot rate; no forward contracts or other hedging instruments are currently entered into. The Board monitors the total foreign exchange risk on a periodic basis but given the major in and out flows of cash are in US dollars there is a natural hedge in place which minimises the overall exposure.

As of 31 December the net exposure to foreign exchange risk was as follows:

Functional currency of individual entity

	Sterling		Australian Dollar		Total	
	2012 £'000	**2011 £'000**	**2012 £'000**	**2011 £'000**	**2012 £'000**	**2011 £'000**
Group						
Net foreign currency financial Assets/(liabilities)						
Australian dollar	**(257)**	-	**-**	-	**(257)**	-
US Dollar	**514**	-	**310**	317	**824**	317
Total net exposure	**257**	-	**310**	317	**567**	317

Functional currency of individual entity

	Sterling		Total	
	2012 £'000	**2011 £'000**	**2012 £'000**	**2011 £'000**
Company				
Net foreign currency financial Assets/(liabilities)				
Australian dollar	**(257)**	-	**(257)**	-
US Dollar	**514**	-	**514**	-
Total net exposure	**257**	-	**257**	-

Other market price risk

The Group's sale of magnetite to the export market, as opposed to US domestic customers, is priced by reference to the market quoted Platts IODEX 62% Fe CFR China price over which the Group has no influence. The Group made its first export sale in the last quarter of 2012. Market prices in 2012 were particularly volatile. In the last quarter the high and low prices were $144.50 and $106.50 respectively. A 5% movement in the Platts IODEX 62% Fe CFR China price would have adjusted revenues for the year by £195,000.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet expected requirements for a period of at least 30 days. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on its long-term borrowings.

The Board receives rolling cash flow projections on a monthly basis as well as information regarding cash balances. The Group does not have any overdraft or other credit lines in place. The liquidity risk of each Group entity is managed centrally by the finance function. Budgets are prepared locally and agreed by the board in advance, enabling the Group's cash requirements to be anticipated.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

4. Financial instruments - Risk management (continued)

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

Group	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 year £'000	Between 2 and 5 years £'000	Over 5 years £'000
As at 31 December 2012					
Trade and other payables	**2,418**	**289**	**-**	**-**	**-**
Loans and borrowings	**1,978**	**95**	**1,046**	**-**	**-**
Total	**4,396**	**384**	**1,046**	**-**	**-**

Group	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 year £'000	Between 2 and 5 years £'000	Over 5 years £'000
As at 31 December 2011					
Trade and other payables	739	-	-	-	-
Loans and borrowings	396	-	-	1,104	-
Total	1,135	-	-	1,104	-

Company	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 year £'000	Between 2 and 5 years £'000	Over 5 years £'000
As at 31 December 2012					
Trade and other payables	**667**	**-**	**-**	**-**	**-**
Loans and borrowings	**1,978**	**95**	**1,046**	**-**	**-**
Total	**2,645**	**95**	**1,046**	**-**	**-**

Company	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 year £'000	Between 2 and 5 years £'000	Over 5 years £'000
As at 31 December 2011					
Trade and other payables	410	-	-	-	-
Loans and borrowings	-	-	-	-	-
Total	410	-	-	-	-

Capital Disclosures
The Group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, share premium, merger reserve, and accumulated loss).

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

5. Segment information

The Group has three main segments:

- Southern Minerals Group LLC (SMG) - This segment is involved in the sale of magnetite to both the US domestic market and shipment of magnetite to port for onward export sale.
- Head Office - This segment incurs all the administrative costs of central operations and finances the Group's operations. A management fee is charged for certain of these expenses.
- Australia - This segment holds the tenements in Australia and incurs all related operating costs.

Factors that management used to identify the Group's reportable segments
The Group's reportable segments are strategic business units that carry out different functions and operations and operate in different jurisdictions.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Executive Chairman, Chief Executive Officer, and the Finance Director.

Measurement of operating segment profit or loss, assets and liabilities
The Group evaluates segmental performance on the basis of profit or loss from operations calculated in accordance with EU Adopted IFRS but excluding non-cash losses, such as the amortisation of intangible assets, and the effects of share-based payments.

Segment assets exclude tax assets and assets used primarily for corporate purposes. Segment liabilities exclude tax liabilities. Loans and borrowings are allocated to the segments in which the borrowings are held. Details are provided in the reconciliation from segment assets and liabilities to the Group position.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

5. Segment information (continued)

	SMG 2012 £'000	Head office 2012 £'000	Australia 2012 £'000	Total 2012 £'000
Revenue	**3,754**	**-**	**-**	**3,754**
Cost of sales	**(2,851)**	**-**	**-**	**(2,851)**
Gross profit	**903**	**-**	**-**	**903**
Exploration and evaluation expenditure	**-**	**-**	**(835)**	**(835)**
Administrative expenses	**(689)**	**(1,258)**	**(1,495)**	**(3,442)**
Segment profit / (loss) from operations	**214**	**(1,258)**	**(2,330)**	**(3,374)**
Finance expense	**-**	**(714)**	**-**	**(714)**
Segment profit / (loss) before taxation	**214**	**(1,972)**	**(2,330)**	**(4,088)**
Amortisation of intangible asset				**(810)**
Share-based payments charge				**(95)**
Group loss before taxation				**(4,993)**

	SMG 2011 £'000	Head office 2011 £'000	Australia 2011 £'000	Total 2011 £'000
Revenue	-	-	-	-
Cost of sales	-	-	-	-
Gross profit	-	-	-	-
AIM admission expenses	-	(581)	-	(581)
Expenses on acquisition of Ebony Iron Pty Limited	-	(258)	-	(258)
Administrative expenses	(214)	(174)	(922)	(1,310)
Segment loss from operations	(214)	(1,013)	(922)	(2,149)
Finance income	-	-	24	24
Finance expense	-	(33)	-	(33)
Segment loss before taxation	(214)	(1,046)	(898)	(2,158)
Share-based payments (as restated)				(1,257)
Group loss before taxation (as restated)				(3,415)

As at 31 December 2012	**SMG £'000**	**Head office £'000**	**Australia £'000**	**Total £'000**
Additions to non-current assets (excluding deferred tax)	**577**	**4**	**698**	**1,279**
Reportable segment assets (excluding deferred tax)	**19,749**	**657**	**1,459**	**21,865**
Reportable segment liabilities	**1,290**	**3,691**	**754**	**5,735**
Deferred tax liabilities				**3,791**
Total Group liabilities				**9,526**

As at 31 December 2011	**SMG £'000**	**Head office £'000**	**Australia £'000**	**Total £'000**
Additions to non-current assets	18,176	-	1,085	19,261
Reportable segment assets	18,189	373	1,709	20,271
Reportable segment liabilities	1	680	1,568	2,249
Deferred tax liabilities				4,168
Total Group liabilities				6,417

	External revenue by location of customers		**Non-current assets by location of assets**	
	2012 £'000	**2011 £'000**	**2012 £'000**	**2011 £'000**
United States of America	**1,058**	-	**17,248**	18,176
Switzerland	**2,696**	-	**-**	-
Australia	**-**	-	**1,118**	1,293
United Kingdom	**-**	-	**354**	-
	3,754	-	**18,720**	19,469

Revenues from one customer total £2,696,000 (2011 - £nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

6. Operating loss

Costs by nature	Year to 31 December 2012 £'000	Period to 31 December 2011 £'000
Operating loss is stated after charging/(crediting):		
Directors' fees and emoluments	491	309
Auditors' remuneration: see below	106	36
Salaries, wages and other staff related costs	459	195
Depreciation expense	86	2
Operating lease – land and buildings	59	46
Legal, professional and consultancy fees	1,690	361
Travelling and related costs	140	138
Foreign exchange loss	64	16
Other expenses	347	207
	3,442	1,310
Auditors' remuneration comprises the following elements:		
Fees charged by the Group's auditor:		
For the audit of the 2012 financial statements	26	21
Amount charged for the prior year in excess of the amount provided	26	-
Fees charged by the auditor to the Australian subsidiaries:		
For the audit of the 2012 financial statements	18	15
Amount charged for the prior year in excess of the amount provided	36	-
	106	36

7. Directors and employees

Staff costs during the period	Year to 31 December 2012 £'000	Period to 31 December 2011 £'000
Directors' fees including consultancy fees	491	309
Wages and salaries	459	177
Social security costs	26	18
Total staff costs	976	504

The average number of people (including executive Directors) employed during the period was:

	2012 Number	2011 Number
Total	8	7

Remuneration of the Directors in the period is summarised as follows:

	Directors' fees 2012 £	Salary and consultancy fees 2012 £	Benefits in kind 2012 £	Total 2012 £
M.D. Bonthrone	24,000	-	-	24,000
S. Sanders	17,500	-	-	17,500
P. Griffiths	-	116,883	-	116,883
M.A. Borrelli	17,500	-	-	17,500
G Cardona	-	-	-	-
J Fyfe	-	140,000	-	140,000
P Harrison	-	140,000	-	140,000
D Anderson	-	30,000	5,382	35,382
Total	59,000	426,883	5,382	491,265

	Directors' fees 2011 £	Salary and consultancy fees 2011 £	Benefits in kind 2011 £	Total 2011 £
M.D. Bonthrone	1,000	75,667	-	76,667
S. Sanders	32,500	68,333	-	100,833
P. Griffiths	1,000	97,834	-	98,834
M.A. Borrelli	32,500	-	-	32,500
G Cardona	-	-	-	-
J Fyfe	-	-	-	-
P Harrison	-	-	-	-
D Anderson	-	-	-	-
Total	67,000	241,834	-	308,834

Directors' remuneration shown above comprises all of the salaries, Directors' fees, consultancy fees and other benefits and emoluments paid to the Directors.

The salary and consultancy fees to P Griffiths during the period were paid by the Company's subsidiary Iron Glen Holdings Pty Limited.

Each Director is also paid all reasonable expenses incurred wholly, necessarily and exclusively in the proper performance of his duties.

8. Finance income / expense

	Year to 31 December 2012 £'000	Period to 31 December 2011 £'000
Bank interest received	-	24
Loan interest and finance charges	(714)	(33)
	(714)	(9)

Notes to the Financial Statements

For the year ended 31 December 2012

9. Taxation

	Year to 31 December 2012 £'000	Period to 31 December 2011 £'000
Current tax expense	-	-
Deferred tax credit on amortisation of intangible	198	-
Deferred tax credit on losses	437	-
	635	-
Reconciliation of effective tax rates		
(Loss) before tax	(4,993)	(3,415)
Tax using domestic rates of corporation tax of 24% (2011: 26%)	(1,198)	(888)
Effect of:		
Expenses not deductible for tax purposes	24	515
Losses carried forward	1,174	373
Deferred tax credit	635	-
	635	-

The Group has excess management expenses of £966,000 (2011: £327,000) and unused losses to carry forward of £4,712,000 (2011: £1,109,000). A deferred tax asset of £437,000 arising from losses carried forward in the UK and USA at a rate of 24% and 40% respectively has been recognised. No deferred tax asset has been recognised for losses in Australia as their recovery is not probable in the foreseeable future. No deferred tax asset was recognised in 2011.

10. Parent Company loss

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent Company is not presented as part of these financial statements. The parent Company's loss for the year was £1,989,000 (2011 - £2,303,000).

11. Loss per share

Losses per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial year. The weighted average number of shares in issue during was basic 434,531,331 (2011 – 278,716,703) adjusted for the historic share reorganisation and consolidation. Fully diluted the weighted average was 434,531,331 (2011: 278,716,703). The loss for the financial period was £4,358,000 (2011 as restated - £3,415,000).

Due to the Group's results for the period, the diluted earnings per share is deemed to be the same as the basic earnings per share.

On 7 February 2013 the Company issued a further 102,666,667 fully paid ordinary shares at 4.5pence per share.

On 27 March 2013 the Company received notice of the exercise of 3,000,000 warrants to subscribe for 3,000,000 new ordinary shares of £0.001 each.

12. Intangibles and investments

	Mining tenements £'000	Exploration/ evaluation costs £'000	Other intangible asset £'000	Total £'000
Cost				
At 1 December 2010	-	207	-	207
Additions	-	876	-	876
Acquisition of Ebony Iron Pty - prior year adjustment (Note 3)	198	-	15,895	16,093
Foreign exchange	-	-	774	774
At 31 December 2011	198	1,083	16,669	17,950
At 1 January 2012	198	1,083	16,669	17,950
Acquisition from Quadrio Resources Pty Limited	-	585	-	585
Additions in the year	-	113	-	113
Relinquished	(198)	(637)	-	(835)
Foreign exchange	-	(27)	(714)	(741)
At 31 December 2012	**-**	**1,117**	**15,955**	**17,072**
Amortisation				
At 1 December 2010	-	-	-	-
Amortisation	-	-	-	-
At 31 December 2011	-	-	-	-
At 1 January 2012	-	-	-	-
Amortisation	-	-	(810)	(810)
Foreign exchange	-	-	18	18
At 31 December 2012	**-**	**-**	**(792)**	**(792)**
Net book value				
At 1 December 2010	-	207	-	207
At 31 December 2011 (as restated)	198	1,083	16,669	17,950
At 31 December 2012	**-**	**1,117**	**15,163**	**16,280**

Ebony Iron Pty Limited
On the 2 September 2011, the Company acquired the entire share capital of Ebony Iron Pty Limited ("Ebony"), a Company registered in Australia.

In the 2011 accounts the fair value of the consideration was calculated using the share price stated in the Sale Purchase Agreement. As noted in Note 3 this was an error and the full description of the ensuing prior year adjustment is given in that Note.

In addition to the new ordinary shares, Ebony shareholders were entitled to, in aggregate, a further consideration of 5 million pounds sterling to be satisfied by the allotment of 50 million new ordinary shares at an issue price of 10 pence per share, subject to the identification by a competent person of an Indicated Mineral Resource that constitutes a Probable Ore Reserve of not less than 200 million tonnes of iron ore (individually or in aggregate) before 31 December 2015 in identified tenements in the Northern Territory and Western Australia. At 31 December 2011 the Western Australia tenements to which the contingent consideration attached had not been acquired by the Group and thus no potential liability existed at 31 December 2011. During the course of 2012, as explained further below, decisions were taken to relinquish or not pursue extensions following the expiry of license terms and as such no contingent consideration will be payable on those relinquished tenements. The Directors do not consider any deferred consideration will be payable in the future and will confirm this fact with Ebony shareholders in advance of future actions.

Notes to the Financial Statements
For the year ended 31 December 2012

The other intangible asset arises from the contractual relationship entered into by Southern Minerals Group LLC ('SMG'), an entity wholly owned by Ebony Iron Pty Limited, with a third party for the rights to a magnetite stockpile held at that party's Cobre mine in New Mexico, USA. Under the terms of the contract SMG has exclusive rights to market approximately 1,500,000 tons of magnetite. The intangible asset is being amortised on a per ton basis as the magnetite is sold.

The list of identifiable assets acquired and liabilities assumed for Ebony Group is set out below and reflects the changes made as a result of the prior year adjustment, as set out in Note 3:

	Book and fair value £'000
Intangible asset – contractual relationship	15,895
Exploration and evaluation asset	198
Railroad Construction and related assets	82
Trade and other receivables	421
Cash and cash equivalents	121
Trade and other payables	(166)
Deferred taxation	(3,974)
Net Assets	**12,577**
Goodwill:	
Purchase consideration	12,577
Fair value of net assets acquired	(12,577)
Goodwill acquired	-

In the 4 months commencing 2 September 2011 the date the Ebony Group was acquired and consolidated in to the results of the Company's reporting period to 31 December 2011, Ebony contributed a loss of £457,538 to the Group's losses. Had the acquisition occurred on 1 December 2010, the start of such reporting period, the contribution to the Group's losses would have been a loss of £1,402,457. In determining this amount, the management had assumed that the fair value adjustments, determined provisionally, that arose on the date of the acquisition would have been the same if the acquisition had occurred on the 1 December 2010.

Mining tenements and exploration and evaluation costs
Exploration and evaluation costs at 31 December 2012 comprise only the Queensland sites held by Iron Glen Pty Limited. These costs are not currently being amortised as there is no revenue being generated given that these assets are still in an early exploration phase.

In 2012 the Group acquired certain other tenements, known as the Western Australia tenements, by the issue of shares to Quadrio Resources Pty Limited on 25 January 2012. This did not represent the acquisition of a business, but the acquisition of these assets only. The Company issued 6,000,000 ordinary shares and with a market price of the Company's shares on that date of 9.75pence per share recorded the fair value of the acquired assets at £585,000.

During the course of 2012 further costs were incurred on these tenements and other tenements acquired from Ebony Iron Pty Limited. However decisions were subsequently taken to relinquish or not pursue extensions following the expiry of license terms resulting in the full carrying value of these tenements being impaired.

The recoverability of the remaining carrying amount of the deferred exploration and evaluation expenditure on the Queensland site is dependent on successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest.

Company	Loans to subsidiary undertakings £'000	Shares in subsidiary undertakings £'000	Total £'000
Cost			
At 31 December 2011 (as previously stated)	-	25,218	25,218
Prior year adjustment (Note 3)	-	3,177	3,177
Reclassification of amounts due from certain subsidiary undertakings	3,399	-	3,399
At 31 December 2011 (as restated) and 31 December 2012	3,399	28,395	31,794
Impairment			
At 31 December 2011	-	-	-
Charge for the year	(585)	-	(585)
At 31 December 2012	(585)	-	(585)
Carrying Value			
At 31 December 2011	-	28,395	28,395
At 31 December 2012	**2,814**	**28,395**	**31,209**

In the opinion of the Directors, the aggregate value of the Company's investment in its subsidiary undertakings is not less than the amount included in the balance sheet.

Holdings of more than 20%
The Company holds more than 20% of the share capital of the following companies:

	Country of incorporation	Principal activity	Class of share	Proportion of ownership interest
Subsidiary undertakings				
Iron Glen Holdings Pty Limited	Australia	Holding Company	Ordinary	100%
Ebony Iron Pty Limited	Australia	Holding Company	Ordinary	100%
Iron Glen Pty Limited (i)	Australia	Exploration	Ordinary	100%
Southern Minerals Group LLC (ii)	USA	Mining	Ordinary	100%
Jotanooka Iron Pty Limited (i)	Australia	Exploration	Ordinary	100%
Dragon Rock Minerals Pty Limited (i)	Australia	Exploration	Ordinary	100%

(i) Held by Iron Glen Holdings Pty Limited
(ii) Held by Ebony Iron Pty Limited

Notes to the Financial Statements

For the year ended 31 December 2012

13. Tangible fixed assets

Group	Railway infrastructure £'000	Office equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 December 2010	-	2	1	3
Additions	1,425	10	1	1,436
On acquisition of subsidiary	82	-	-	82
At 31 December 2011	1,507	12	2	1,521
At 1 January 2012	1,507	12	2	1,521
Additions	642	4	-	646
Disposals	-	(12)	-	(12)
Foreign exchange	(65)	-	-	(65)
At 31 December 2012	**2,084**	**4**	**2**	**2,090**
Depreciation				
At 1 December 2010	-	1	-	1
Charge in the period	-	-	1	1
At 31 December 2011	-	1	1	2
At 1 January 2012	-	1	1	2
Charge in the year	86	-	-	86
Eliminated on disposals	-	(1)	-	(1)
At 31 December 2012	86	-	1	87
Carrying value				
At 1 December 2010	-	1	1	2
At 31 December 2011	1,507	11	1	1,519
At 31 December 2012	**1,998**	**4**	**1**	**2,003**

The tangible assets of the Company relate to office equipment only.

14. Inventories

	2012 £'000	2011 £'000
Finished goods held for sale	**1,722**	-

15. Trade and other receivables

	2012 £'000	2011 £'000
Group		
Trade receivables	466	-
Other receivables	700	503
Less: provision for impairment of other receivables	(69)	-
	1,097	503
Company		
Trade receivables	374	-
Amounts owed by subsidiary undertakings	2,006	850
Other receivables	293	98
	2,673	948

There were no Trade or Other receivables that were past due or impaired beyond the charge reflected above. The Trade and Other receivables are categorised as loans and other receivables and are not materially different to their carrying values.

16. Cash and cash equivalents

	2012 £'000	2011 £'000
Group		
Bank current accounts	763	299
Company		
Bank current accounts	360	275

The Group's balances are held with well-known and highly rated UK, USA and Australian banks.

17. Borrowings

The carrying values of the borrowings and their maturity are as follows:

	2012 £'000	2011 £'000
Group		
Current:		
Repayable within one year:		
Loan notes	-	1,104
Other loans	2,059	396
	2,059	1,500
Company		
Current:		
Repayable within one year:		
Other loans	2,059	-
	2,059	-

The loan notes outstanding at 31 December 2011 were unsecured, carried interest at 10% and were fully repayable at 31 December 2011.

On the 20 February 2012, the Company refinanced the loan notes into the following:

(a) an unsecured convertible loan note of £950,670 effective from 2 January 2012 with an interest rate of 10 per cent per annum repayable on or before the 14 December 2014. The convertible loan note could be converted into the Company's ordinary shares on or before the repayment date at 15 pence per share and immediate repayment required if certain events outside the Company's control occurred.
(b) the balance of the loan had been refinanced on similar terms as before but with a repayment date of 30 June 2012 which has subsequently been re-negotiated to repay this balance in full by 31 December 2013.

The other loans outstanding at 31 December 2012 were denominated in pounds sterling and US dollars with maturities of between 45 and 60 days from date of draw-down.

	2012 £'000	2011 £'000
Group and Company		
More than one year		
Repayable on 31 December 2014:		
Loan notes	951	-
	951	-

Subsequent to the year-end the repayment terms of £791,000 of these loan notes were re-negotiated with a repayment schedule agreed to repay this amount in full by 31 December 2013 and the convertible loan can no longer be converted into the Company's ordinary shares.

18. Trade and other payables

	2012 £'000	2011 £'000
Group		
Trade payables	1,529	400
Applications for shares not allotted	-	270
Other payables	320	10
Accruals and deferred income	876	69
	2,725	749
Company		
Trade payables	184	198
Applications for shares not allotted	-	270
Other payables	29	14
Accruals and deferred income	468	198
	681	680

Book values approximate to fair value at 31 December 2012 and 2011.

19. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25 % (2011 - 25 %). The reduction in the main rate of corporation tax to 23% was substantively enacted in July 2012. This new rate will be applied to deferred tax balances which are expected to reverse after 1 April 2013, the date on which that new rate becomes effective.

The movement on the deferred tax account is as shown below:

Deferred tax liability	**2012 £'000**	**2011 £'000**
At 1 January	**(4,168)**	-
Recognised in profit and loss		
Tax credit	**198**	-
	(3,970)	**-**
Arising on business combination (Note 3 and 12)	**-**	(3,974)
Foreign exchange	**179**	(194)
At 31 December	**(3,791)**	(4,168)

Deferred tax asset	**2012 £'000**	**2011 £'000**
At 1 January	**-**	-
Recognised in profit and loss		
Tax credit	**437**	-
At 31 December	**437**	**-**

Of this total deferred tax asset, £350,000 arises in the Company.

20. Share capital

	2012 No	**2012 £'000**	**2011 No**	**2011 £'000**
Allotted, called up and fully paid				
Ordinary shares	**448,158,893**	**448**	399,396,393	399

On 10 November 2010, 1 ordinary share of £1.00 was issued for cash. This was subdivided into 1,000 ordinary shares of £0.001 each.

Movements in 2011

During the period, the Company acquired all the shares in Iron Glen Holdings Limited ("IGH") by way of share for share exchange. The shares issued during the period to the shareholders of IGH were as follows:

- on 25 November 2010 138,339,979 ordinary shares were issued at £0.05 each
- on 15 January 2011, 56,155,002 ordinary shares were issued at £0.05 each
- on 3 February 2011, all the issued ordinary shares of £0.001 each was subdivided into 777,983,924 ordinary shares of £0.00025 each
- on 16 March 2011, 340,831,564 ordinary shares were issued at £0.00025 each
- on 29 March 2011, 6,706,668 ordinary shares were issued at £0.00025 each
- On 9 May 2011, all the issued ordinary shares of £0.00025 each were consolidated into 281,380,539 ordinary shares of £0.001 each

On 3 June 2011, 15,000,000 ordinary shares of £0.001 each were issued for cash at £0.05 each.

On 7 July 2011 1,000,000 ordinary shares of £0.001 each and on 29 July 2011 a further 500,000 ordinary shares of £0.001 each were on exercise of the same number of warrants at £0.05 each.

On 16 September 2011, 94,000,000 ordinary shares of £0.001 each were issued in exchange for all the issued share capital of Ebony Iron Pty Limited.

On 1 November 2011, 7,515,854 ordinary shares for £0.001 each were issued for cash at £0.1 each.

Movements in 2012
On 12 January 2012, 3,700,000 ordinary shares of £0.001 each were issued for cash at £0.10 each and a further 6,000,000 ordinary shares were issued on 30 January 2012 to acquire tenement ownership rights from Quadrio Reserves Pty Limited pursuant to the acquisition completed on 25 January at a price of £0.0975 per share.

On 2 May 2012, the Company completed a private placing of 39,062,500 ordinary shares of £0.001 each at £0.08 per share to raise £3,125,000 before expenses. In addition, participants in the placement were granted a one for one warrant on each share purchased exercisable at £0.12 per share on or before 30 April 2014.

Post year end
On 7 February 2013 the Company completed a private placing of 102,666,667 ordinary shares of £0.001 each at £0.045 per share to raise £4,200,000 net of expenses.

On 27 March 2013 the Company received notice of the exercise of 3,000,000 warrants to subscribe for 3,000,000 new ordinary shares of £0.001 each.

21. Share-based payments

The Group has a share-ownership compensation scheme for senior executives of the Group whereby senior executives may be granted options to purchase ordinary shares in the Company.

The Group has on occasion issued warrants as detailed below to third parties in settlement of liabilities to strategic suppliers. Each share warrant converts into one ordinary share of Strategic Minerals Plc upon exercise. No amounts are paid or payable by the recipient of the warrant for the warrant. The warrants carry neither rights to dividends nor voting rights at shareholders meetings.

Warrants
On 31 March 2011, 23,369,988 warrants were issued to a supplier for services provided, exercisable at £0.0186 per share on or before 31 March 2014.

On 31 March 2011, 3,000,000 warrants were issued to a supplier for services provided, exercisable at £0.001 per share on or before 31 March 2013. On 27 March 2013 the Company received notice and these warrants were exercised for 3,000,000 new ordinary shares at £0.001 each.

On 1 June 2011, 4,445,708 warrants were issued to a supplier for services provided, exercisable at £0.05 per share on or before 8 June 2012. On 7 July 2011, 1,000,000 warrants were exercised at £0.05 per share and the remaining warrants were forfeited by the warrant holder.

On 30 June 2011, 8,921,416 warrants were issued to a supplier for services provided, exercisable at £0.05 per share on or before 29 June 2016. On 29 July 2011, 500,000 such warrants were exercised at £0.05 per share.

On 1 March 2012, 12,000,000 warrants were issued to a third party advisor to the Company comprising 4,000,000 at an exercise price of £0.12 per share, 4,000,000 at an exercise price of £0.16 per share and 4,000,000 at an exercise price of £0.20 per share. The warrants vest in quarterly periods commencing 1 June 2012 until 1 March 2015 at the rate of 1,000,000 warrants per quarter.

On 3 May 2012, 39,062,500 warrants were issued to participants in an equity placement of 39,062,500 new ordinary shares at £0.08 per share at an exercise price of £0.12 per share and exercisable on or before 30 April 2014.

The estimated fair value of the warrants issued during the year was calculated by applying the Black-Scholes option pricing model. Expected volatility was originally stated at 10% but has been revised to 55% as this is considered more appropriate given the Company does not have a long representative period to consider and therefore the Directors have also looked at comparable companies. The assumptions used in the calculation were as follows:

	March 2011 warrants	March 2011 warrants	1 June 2011 warrants	May 2012 warrants	March 2012 warrants
Share price at date of grant	5.00p	5.00p	7.25p	8.80p	10.75p
Exercise price	1.86p	0.10p	5.00p	12.00p	12.00p
Expected volatility	55%	55%	55%	55%	55%
Expected dividend	Nil	Nil	Nil	Nil	Nil
Contractual life	3 years	2 years	3 years	2 years	3 years
Risk free rate	4%	4%	4%	0.22%	0.39%
Estimated fair value of each warrant	3.12p	4.51p	3.32p	0.29p	3.2p

Number of outstanding Warrants at 31 December 2012:

Date of Grant	Granted	Exercised/ Vested	Forfeits	At 31.12.12	Exercise Price	Exercise/ Vesting Date From	To
31.03.11	23,369,988	-	-	23,369,988	1.86p	31.03.11	31.03.14
31.03.11	3,000,000	-	-	3,000,000	0.1p	31.03.11	31.03.13
01.06.11	4,445,708	(1,000,000)	(3,445,708)	-	5p	01.06.11	02.12.11 (1/2) 02.06.12 (1/2)
30.06.11	8,921,416	(500,000)	-	8,421,416	5p	30.06.11	29.06.16
01.03.12	4,000,000	-	-	4,000,000	12p	01.06.12	01.03.13
01.03.12	4,000,000	-	-	4,000,000	16p	01.06.13	01.03.14
01.03.12	4,000,000	-	-	4,000,000	20p	01.06.14	01.03.15
03.05.12	39,062,500	-	-	39,062,500	12p	03.05.12	30.04.14
	90,799,612	**(1,500,000)**	**(3,445,708)**	**85,853,904**			

Options

On 31 March 2011, 26,639,956 options were issued to the Group's Directors and key management personnel, exercisable at 3.1p per share on or before 31 March 2014.

Number of outstanding options at 31 December 2011:

Date of Grant	Granted	Exercised/ Vested	Forfeits	At 31.12.11	Exercise Price	Exercise/ Period From	To
31.03.11	26,639,956	-	-	26,639,956	3.1p	31.03.11	31.03.14

The estimated fair value of the warrants issued during the year was calculated by applying the Black-Scholes option pricing model. The assumptions used in the calculation were as follows:

Share price at date of grant	5p
Exercise price	3.10p
Expected volatility	55%
Expected dividend	Nil
Contractual life	3 years
Risk free rate	4%
Estimated fair value of each warrant	2.44p

Notes to the Financial Statements

For the year ended 31 December 2012

The total number of share options and warrants outstanding at 31 December 2012 was 100,493,860.

The share options outstanding at the year-end had a weighted average remaining contractual life of 730 days (2011 – 1,096).

22. Commitments

(a) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012 £'000	2011 £'000
Group		
Within one year	54	37

(b) Capital expenditure commitments

At 31 December 2011, Southern Minerals Group LLC had an outstanding commitment amounting to approximately USD1,164,914 relating to the refurbishment of a spur rail line in New Mexico.

At 31 December 2012, no capital commitments existed.

23. Controlling party

There is no ultimate controlling party of the Group. Strategic Minerals Plc acts as the parent Company to Iron Glen Holdings Pty Limited, Ebony Iron Pty Limited, Iron Glen Pty Limited, Southern Minerals Group LLC, Jotanooka Iron Pty Limited and Dragon Rock Minerals Pty Limited.

24. Related party transactions

Transactions in 2012

During the year Strategic Minerals Plc settled various expenses on behalf of Ebony Iron Pty Limited, Iron Glen Holdings and Iron Glen Pty Limited in the amount of £1,035,967, £282,003 and £603,980 respectively. A loan previously held in Ebony Iron Pty Limited for £1,186,000 was transferred to Strategic Minerals Plc in the year. These loans are non-interest bearing, unsecured and have no fixed repayment and are at call. At 31 December 2012 these amounts all remained due to the Company. In addition the Company charged £41,854 to Iron Glen Holdings Pty Limited for management fees for the year ended 31 December 2012.

During the year the Company advanced funds to Southern Minerals Group LLC of £4,299,077 to fund the working capital requirements of that entity. Southern Minerals Group LLC also invoiced the Company for the costs incurred in connection with the Company's export sales at a margin. The Company also charged management fees of £114,016 for the year ended 31 December 2012. At 31 December 2012 the balance due from Southern Minerals Group LLC was £2,006,385 and is non-interest bearing and unsecured without any fixed repayment terms.

During the year £29,716 was paid to Sanders Ortoli Vaughn-Flam Rosenstadt LLP, a firm in which S Sanders is a member, in connection with legal advice provided to the Company. An amount of £17,500 was also incurred in respect of Directors' fees.

During the year £20,000 and £27,000 was paid to RiverWide Capital Partners Limited, a Company in which J Fyfe and P Harrison have a material interest, for consultancy services and the provision of the Company's London office facilities respectively.

During the year £17,500 was paid to M A Borelli, a director of the Company for Directors' fees. £24,000 was paid to M D Bonthrone, a director of the Company, for Directors' fees. An amount of £116,883 was paid to P Griffiths, a director of the Company for director and consultancy fees. An amount of £140,000 each paid to J Fyfe and P Harrison, Directors of the Company, for director and consultancy fees.

At 31 December 2012 an unsecured loan of £160,000 was due to Walter Doyle, a shareholder of the Company on which interest of 10% is charged.

Transactions in 2011

During the period ended 31 December 2011, Strategic Minerals Plc loaned money to and paid expenses on behalf of Ebony Iron Pty Limited, Iron Glen Holdings and Iron Glen Pty Limited in the amount of £586,270, £156,561 and £107,478 respectively. The loans are non-interest bearing, unsecured, have no fixed repayment term and are at call. At the yearend these amounts all remained due to the Company. In addition, the Company charged £249,424 to Iron Glen Holdings Pty Limited for management fees in the period ended 31 December 2011.

During the period £32,500 and £68,333 were paid to Sanders Ortoli Vaughn-Flam Rosenstadt LLP, in which S. Sanders a director of the Company is a member, for Directors' fees and salary and consultancy fees respectively.

During the period, £1,000 and £75,667 were paid to M D Bonthrone, a director of the Company, for Directors' fees and consultancy fees respectively.

During the period, £32,500 was paid to M A Borrelli, a director of the Company, for Directors' fees.

During the period, £1,000 and £97,834 were paid to P Griffiths, a director of the Company for Directors' fees and consultancy fees respectively.

During the period, £30,207 and £7,907 were paid to J Felix and J Bohringer, Directors of Iron Glen Holdings Pty Limited, for consultancy and Directors fees respectively.

During the period, £113,353 was paid to JASP Pty Limited, in which J Peters is a director of Ebony Iron Pty Limited, for consultancy fees.

During the period, £31,909 was paid to D Weidermeir, a director of Ebony Iron Pty Limited, for director's fees.

As at the 31 December 2011, an unsecured and interest free loan of £166,719 was due to Walter Doyle, a shareholder of the Company. During the period, an amount of £28,003 was paid to Walter Doyle for consultancy services.

25. Events after the reporting period

On 7 February 2013 the Company issued 102,666,667 fully paid ordinary shares at £0.045 per share pursuant to an Equity Placement which raised £4.2million net of expenses.

On 27 March 2013 the Company received notice of the exercise of 3,000,000 warrants to subscribe for 3,000,000 new ordinary shares of £0.001 each.

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