

BSG RESOURCES (GUINEA) LTD

31 December 2009

Statement of Financial Affairs

BSG RESOURCES (GUINEA) LTD

CONTENTS

	Page
General Information	2
Balance Sheet	3
Project Information	4
Notes	5-7
Accountant's Agreed Upon Procedures Report	8

BSG RESOURCES (GUINEA) LTD

GENERAL INFORMATION

Directors:	David Michael Clark (appointed 10 February 2009) Sandra Merloni-Horemans (appointed 10 February 2009) Asher Avidan (appointed 12 March 2009) Marcus Joannes Paulus Maria Struik (appointed 12 March 2009)
Registered office:	West Wing Frances House Sir William Place St Peter Port Guernsey GY1 1GX
Company secretary:	Perla Limited (appointed 10 February 2009)
Company Registration Number:	50001
Date of incorporation:	10 February 2009
Issued Share Capital	One Ordinary Share of one US Dollar
Holding Company:	BSG Resources Limited (A company registered in Guernsey)
Wholly Owned Subsidiary:	BSG Resources Guinea Limited Sarl (A company registered in the Republic of Guinea)

BSG RESOURCES (GUINEA) LTD

Balance Sheet

as at 31 December 2009

	Notes	31-Dec-09 USD	31-Dec-08 USD
ASSETS			
Exploration and Evaluation Asset	4	150,191,546	49,282,228
		<u>150,191,546</u>	<u>49,282,228</u>
LIABILITIES AND COMMITMENTS			
Amounts payable to BSG Resources Limited	5	78,938,868	42,024,904
Amounts payable to Resources Advisory Services Limited	6	71,252,678	7,257,324
TOTAL LIABILITIES AND COMMITMENTS		<u>150,191,546</u>	<u>49,282,228</u>

Approved by the board of directors on 12 February 2010.




 Director

BSG RESOURCES (GUINEA) LTD

PROJECT INFORMATION

The operations of BSGR Guinea consist of two inextricably related phases: Phase 1- Simandou South known as Zogota and Phase 2 known as the Simandou Blocks 1&2.

In December 2009, BSGR Guinea was awarded and signed with the Government of Guinea a 25 year (renewable) Mining Agreement (known as a "Convention de Base"). The Government has also granted BSGR for both phases exclusive access to the South Corridor for the exit of iron ore to the Port of Buchanan in Liberia.

The combined concession areas are predicted to hold a minimum of 5.5 billion tonnes of high quality hematite. Annual production to be approximately 130 Mt of Direct Shipping Ore ("DSO").

A further estimated 20 billion tonnes of magnetite is predicted to exist within the combined concession areas.

Zogota which is BSGR's own discovered deposits is the most advanced and considered to be the most substantial investment opportunity with the potential to produce up to 30Mt of product every year via Liberia to the port of Buchanan.

Simandou Blocks 1 & 2 has the potential to produce up to 100Mt of product per year that will also be taken to market through Liberia via dedicated infrastructure.

Activity on the north iron ore deposit has been curtailed, at least at this time, as the deposits were found to be of insufficient grade to support a viable project.

The Bauxite project has been curtailed to allow the Group to concentrate fully on the substantial iron ore deposits.

As at 31 December 2009, BSGR has expended and committed to expend USD 150m on its world class Guinea Project. Note 7 provides an analysis of this expenditure.

As a result of this project, BSGR will become the 3rd/ 4th largest global producer of iron ore.

BSG RESOURCES (GUINEA) LTD

NOTES

1 Basis of preparation

This statement of financial affairs represents the amounts incurred and committed by the BSG Resources Group ("BSGR") including BSG Resources (Guinea) Limited and BSG Resources Guinea Limited Sarl in respect of the Group's Guinea Iron Ore Project ("the Project").

The balance sheet includes amounts paid or payable in respect of the Project for the period up to 31 December 2009 in respect of exploration and evaluation assets. The balance sheet also includes those amounts which have been committed to be spent for the period to 30 June 2010.

2 Summary of significant accounting policies

Foreign currency transactions

Foreign currency transactions are recorded at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains and losses arising on translation are credited to or charged against income.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits and highly liquid investments with an original maturity of three months or less. The carrying amount of cash and cash equivalents is stated at cost, which approximates fair value.

Exploration and evaluation asset

Exploration and evaluation involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. It includes:

- researching and analysing historical exploration data
- gathering exploration data through topographical, geochemical and geophysical studies
- exploratory drilling, trenching and sampling
- determining and examining the volume and grade of the resource
- surveying transportation and infrastructure requirements
- conducting market and finance studies

Development costs

Development costs consist primarily of expenditure to expand the capacity of mines or to bring mines into commercial production. No depreciation is provided on such capital until these these projects are brought into use or mines are considered to be in commercial production. Costs incurred to maintain production are expensed as incurred.

Financial liabilities

Financial liabilities, other than trading financial liabilities, are measured at amortised cost being the original obligation less principal payments and amortisation, on an effective interest basis.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the costs over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, Goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

BSG RESOURCES (GUINEA) LTD

NOTES (continued)

4 Exploration and Evaluation Asset	Total USD
Cost/valuation at 1 January 2008	8,175,006
Additions in 2008	<u>41,107,222</u>
Value as at 31 December 2008	49,282,228
Additions in 2009	<u>72,771,318</u>
Net book value as at 31 December 2009	122,053,546
Committed expenditure for period 1 January 2010 to 30 June 2010	28,138,000
Total Exploration and Evaluation Asset	<u>150,191,546</u>

5 Amounts payable to BSG Resources Limited

	USD
Amounts in respect of periods to 31 December 2006	1,690,893
Amounts in respect of year to 31 December 2007	6,484,113
Amounts in respect of year to 31 December 2008	33,849,898
Amounts in respect of year to 31 December 2009	22,225,964
Amounts committed in respect of period 1 January to 30 June 2010	14,688,000
	<u>78,938,868</u>

(a) The interest bearing debt to BSG Resources Ltd is payable on demand at a rate of USD 6 month LIBOR plus 3%. Interest is capitalised annually at the year end.

6 Amounts payable to Resources Advisory Services Limited

	USD
Amounts in respect of the periods to 31 December 2008	7,257,324
Amounts in respect of the year to 31 December 2009	50,545,354
Amounts committed in respect of period 1 January to 30 June 2010	13,450,000
	<u>71,252,678</u>

The Resources Advisory Services Limited ("RAS") invoices are payable on demand and bear interest at 8% pa. Interest is capitalised annually at the year end.

RAS is a wholly owned subsidiary of the BSGR Group which specialises in the provision of advisory services, including but not limited to, accounting, financial, banking and treasury services; project evaluation; technical, geology and engineering services; information technology; company secretarial, administration and Corporate Governance; environmental and related issues; procurement and logistical support and the appointment of external consultants.

BSG RESOURCES (GUINEA) LTD

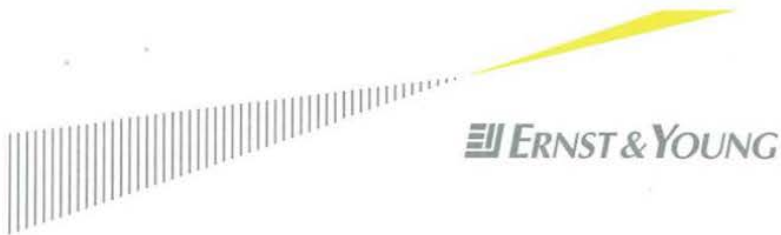
NOTES (continued)

7 Exploration and Evaluation Asset- Analysis by area and year

	USD Total	USD 2009	USD 2008	USD 2007	USD 2006
Iron Ore North	6,413,902	-	1,152,806	3,694,991	1,566,105
Simandou Blocks 1&2	31,159,758	31,159,758	-	-	-
Simandou South- Zogota	57,544,632	41,468,286	15,457,970	523,776	94,600
Bauxite Project	4,935,254	143,274	2,496,446	2,265,346	30,188
Total	100,053,546	72,771,318	19,107,222	6,484,113	1,690,893
Goodwill on acquisition	22,000,000		22,000,000		
	<u>122,053,546</u>	<u>72,771,318</u>	<u>41,107,222</u>	<u>6,484,113</u>	<u>1,690,893</u>
Committed Expenditure	28,138,000				
Total Exploration and Evaluation asset	<u><u>150,191,546</u></u>				

Included in exploration and evaluation expenditure are the following:

Tangible assets, consultancy fees, exploration costs, excavation and drilling cost, sample analysis and evaluation expenses and on-site operational costs.



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Agreed upon procedures report – BSG Resources (Guinea) Limited

To the Directors

We have performed the procedures agreed with you in our engagement letter dated 12 February 2010 and set out below in respect of the "Statement of Financial Affairs" of BSG Resources (Guinea) Limited, a copy of which is attached to this report for identification purposes. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to report our factual findings from these procedures and are as follows:

1. Agree that the information contained on page 2 "General Information" with regards to BSG Resources (Guinea) Limited is in agreement with the Statutory Records, Certificates and Registers of the Company.
2. Agree that all the information contained within the Statement of Financial Affairs is mathematically accurate and internally consistent.
3. With regards to the Exploration and Evaluation Asset of US\$150,191,546 as disclosed in aggregate on the Balance Sheet and analysed in greater detail in notes 4 and 7 of the Statement of Financial Affairs:
 - a. Agree that the cost / valuation amount as at 1 January 2008 of US\$8,175,006 as per note 4 agrees to the audited consolidated financial statements of BSG Resources Limited for the year ended 31 December 2007;
 - b. Agree that the amounts in the "Exploration and Evaluation Asset – Analysis by area and year" table in note 7 of US\$1,690,893, US\$6,484,113, US\$19,107,222 and US\$72,771,318 for each of the years ended 31 December 2006, 2007, 2008 and 2009 respectively have been accurately extracted from the underlying accounting records of BSG Resources (Guinea) Limited;
 - c. Agree that the "Goodwill on Acquisition" figure of US\$22,000,000 included in note 7, and relating to the acquisition of the Guinea iron ore exploration and mining company, agrees to the audited consolidated financial statements of BSG Resources Limited for the year ended 31 December 2008; and
 - d. Agree that the "Committed Expenditure for period 1 January 2010 to 30 June 2010" figure of US\$28,138,000 agrees to the budgeted expenditure amounts approved by the Board of Directors in the signed board minutes of the Company dated 12 February 2010.
4. With regards to the Amounts Payable to BSG Resources Limited of US\$78,938,868 as disclosed in aggregate on the Balance Sheet and in greater detail in note 5 of the Statement of Financial Affairs:
 - a. Agree that the cumulative total amounts due to BSG Resources Limited for the period to 31 December 2009 as disclosed in note 5 of US\$64,250,868 matches to a loan confirmation signed by the Directors of both BSG Resources Limited and BSG Resources (Guinea) Limited as at that date; and



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- b. Agree that the "Amounts Committed in respect of period 1 January to 30 June 2010" of US\$14,688,000 agrees to the funding budget approved by the Board of Directors of the Company in their meeting of 25 January 2010. Furthermore, agree that the minutes of that meeting confirm that this amount would be funded by the Company's parent, BSG Resources Limited.
5. With regards to the Amounts Payable to Resources Advisory Services Limited of US\$71,252,678 disclosed in aggregate on the Balance Sheet and in greater detail in note 6 of the Statement of Financial Affairs:
 - a. Agree that the amounts payable of US\$57,802,678 for the period to 31 December 2009 agree to supporting invoices raised in accordance with the terms of the Advisory Services Agreement dated 28 February 2009; and
 - b. Agree that the "Amounts Committed in respect of period 1 January to 30 June 2010" of US\$13,450,000 agree to the funding budget for Resources Advisory Services Limited approved by the Board of Directors in the signed board minutes of the Company dated 12 February 2010.

We report our findings below:

- a. With respect to item 1 we found no discrepancies.
- b. With respect to item 2 we found no discrepancies.
- c. With respect to items 3a, 3b, 3c and 3d we found no discrepancies.
- d. With respect to items 4a and 4b we found no discrepancies.
- e. With respect to items 5a and 5b we found no discrepancies.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Statement of Financial Affairs as at 30 June 2010 a copy of which is attached for identification purposes.

Had we performed additional procedures or had we performed an audit or review of financial statements in accordance with International Standards on Auditing (UK and Ireland) or International Standards on Review Engagements, we might have identified other issues that would be of relevance to you.



Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the items specified above and does not extend to any other information. To the fullest extent permitted by law, we do not assume responsibility to anyone other than BSG Resources (Guinea) Limited for this report.

Ernst & Young LLP

Ernst & Young LLP

Date: 18 February 2010