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REPORT OF THE DIRECTORS AND  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010 FOR  
AMAZON MINING HOLDING PLC

# AMAZON MINING HOLDING PLC

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# AMAZON MINING HOLDING PLC

## COMPANY INFORMATION

### FOR THE YEAR ENDED 31 DECEMBER 2010

Directors: Cristiano Veloso  
Getulio Lamartine de Paula Fonseca  
Peter Gundy  
Renato Couto Gomes  
Henrique Brandao Cavalcanti  
Jeddiah Kurt Richardson

Secretary: T W Slater

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# AMAZON MINING HOLDING PLC

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors present their report with the audited financial statements of Amazon Mining Holding Plc and its subsidiaries ("the Group" or "Amazon") for the year ended 31 December 2010.

### PRINCIPAL ACTIVITIES

The principal activity of the Group is that of mineral exploration and development. The principal activity of the Company is that of a holding company. The primary function of the Group is acquisition, exploration and development of mineral properties in Brazil.

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Group continued its exploration activities on the Cerrado Verde Potash Project ("Cerrado Verde") located in the state of Minas Gerais in Central Brazil. The Group received an initial National Instrument (NI) 43-101 compliant inferred mineral resource estimation of 105 million tonnes at 10.3% K<sub>2</sub>O Inferred Resource and announced results of a Scoping Study supporting the Group's positive outlook on the value of the Cerrado Verde Potash Project.

During the year the Group staked a large claim in the western part of Minas Gerais adjacent to the Cerrado Verde project, prospective for phosphate (Apatita Phosphate Project).

Given the stage of the Group's operations the Board regards the projects acquired and drilling progress to be the Key Performance Indicators in measuring the Group's progress and future success.

The Group issued 1,080,000 ordinary shares of 25 pence each on 30 December 2010 at \$4.17 per share raising a total of \$4.2 million after expenses. On 11 January 2011 a further issue of 2,398,100 ordinary shares of 25 pence at \$4.17 per share raised \$9.4 million after expenses.

The Group incurred \$2,598,168 (2009: \$751,000) on deferred exploration costs during the year and made an operating loss of \$2,687,398 (2009: \$1,426,047) and a net loss of \$2,520,855 (2009: \$1,367,154) for the year.

The Group is looking forward to advancing its exploration programmes in the forthcoming year including the production of a NI 43-101 compliant resource for the Cerrado Verde deposit, advancing the development of its ThermoPotash product and producing NI43-101 compliant resources for the Apatita Phosphate Project. In common with many exploration companies, the Group raises financings for its exploration and appraisal activities in discrete tranches. Further funding is raised as and when required. When the Group's projects advance to the development stage, further financing will be required.

### **Cerrado Verde**

During Q3 2008 the Group staked a large mineral occurrence of a potash bearing rock, known as Verdete slate ("Verdete") that is believed to be uniquely suited to Brazil's domestic fertilizer needs.

Cerrado Verde is source of a potash rich rock from which Amazon plans to produce a slow-release non-chloride multi-nutrient fertilizer product. The main potash-bearing minerals of Verdete are glauconite (a hydrated potassium-iron silicate) and sericite (a monoclinic, basic potassium aluminosilicate of the mica group), with K<sub>2</sub>O contents ranging from 5% to 14%. Amazon has proposed the manufacture of ThermoPotash a new fertilizer, produced using pyrometallurgical processes with desirable characteristics; it is slow release, non-chloride and multi-nutrient. In addition, the Group is developing new routes to manufacture conventional potash salts from its potash rock.

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (CONTINUED)

In January 2010, the Group announced the completion of resource confirmation drill holes in the Funchal Norte target at the Cerrado Verde project. In total 1,000 metres in 19 vertical holes were drilled to evaluate potash grades. Drilling delineated two distinct zones of mineralization, a Massive Glaucosite Zone, grading 10% to 13% K<sub>2</sub>O dark green in colour, with rare argillite intercalations which is projected to be the focus of resource calculation and economic analysis and a lower grade mineralization zone which was classified as a Transition Zone, grading 5% to 9% K<sub>2</sub>O light green in colour, with more abundant argillite intercalations. On March 8, 2010 the Group received an initial NI 43-101 compliant inferred mineral resource estimation of 105 million tonnes at 10.3% K<sub>2</sub>O Inferred Resource for its Cerrado Verde Potash Project.

Beginning in March 2010, the Group produced trial versions of its proposed ThermoPotash product

As of August 2010, the Group received excellent results from solubility tests and nutrient availability tests for ThermoPotash with the University of Uberlandia in Minas Gerais, Brazil. The University of Cambridge in the United Kingdom, led by Professor Dr Derek Fray continues to evaluate new routes capable of producing Muriate of Potash (KCl) and Sulphate of Potash (SOP) from Cerrado Verde's potash rock. The Group will provide a comprehensive update when further progress is achieved and considered to be material.

In October 2010 the Group announced the results of a Scoping Study which support Amazon's positive outlook on Cerrado Verde's value and represent a significant milestone towards full development of the Project.

#### **Apatita**

The Group has staked a large claim in the western part of Minas Gerais adjacent to the Cerrado Verde project, prospective for phosphate. Further the Group holds 100% of the mineral rights.

In May 2010, during the course of detailed geological work on the Cerrado Verde property, Amazon geologists discovered a geological feature with phosphate mineralization. Follow up work in the area led management to expand claims in the area to explore the extent of the feature for economic grades of phosphate. Amazon is currently pursuing an exploration program for phosphate including surface sampling and diamond drilling.

The base of the geologic unit where the phosphate occurs is represented by sandstones of the Areado Group. This is overlain by a sequence of sandstone, conglomerates and greywackes. The phosphate occurs primarily in the cement of the rocks as well as fragments in the greywacke and conglomerates. The primary phosphate mineral identified by petrographical studies undertaken by Amazon is apatite, but secondary phosphate minerals such as crandallite and wavellite have also been identified in the weathered zone.

In October 2010 the Group concluded a drilling campaign, encouraged by the preliminary results on two of three phosphate prospects tested at Apatita. The programme consisted of 12 holes for a total of 1,022 m of HQ sized diamond core. The Group plans to continue drilling, with a view to completing a NI 43-101 compliant resource estimate. In addition, Amazon will continue its exploration on five other prospects that have been identified along the strike length.

#### **Madeira**

The Madeira gold project is located in Amazonas State of Western Brazil. There are no staged payments to underlying owners.

The Group has completed a reconnaissance drill program. Gold mineralization was also encountered in the coarse-grained sandy stratigraphic layers occurring above and below the targeted Mocururu structure. Historically, buried conglomerate structures exposed by the Madeira River provided for reported gold production of over 1.6 million ounces. The interpretation of the geological setting is that the Mocururu mineralization is a result of the transport and deposition of gold and heavy minerals that were eroded during the uplift of the

# AMAZON MINING HOLDING PLC

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (CONTINUED)

Bolivian Andes. Given the abundance of identified gold deposits in the Andean catchment feeding this basin, the Group believes it controls a highly prospective area. The initial results are the first clear indication that gold mineralization extends beyond the immediate vicinity of the Madeira River.

#### **Tucano**

During Q2 2009 as part of the Uaua Pesquisa transaction, the Group acquired the Tucano project. The project is located in Bahia State approximately 277km southwest of Salvador City. Vanadium and uranium mineralization occur in the Mesozoic Sergi Formation of the Tucano Basin, associated with organic-rich and green colored clay alluvial sandstones. The exploration target is vanadium bearing oxides. Current Brazilian legislation establishes uranium as a federal monopoly.

In May 2010, Amazon completed a 300m drill program at the Tucano Project in Bahia, Brazil, to maintain its claims. The drill holes were assayed for vanadium only.. Historical work suggests that Tucano is host to potentially economic grades of vanadium and uranium, uranium was not assayed for as it remains a controlled mineral in Brazil. Amazon has temporarily suspended drilling on a further 6 holes in order to concentrate on the Cerrado Verde project.

### FINANCIAL CONTROLS AND RISK MANAGEMENT

The Board regularly reviews the risks to which the Group is exposed and ensures through Board Committees and regular reporting that these risks are minimized as far as possible. The Audit Committee is responsible for the implementation and review of the Group's internal financial controls and risk management systems.

The exploration for and exploitation of natural resources are speculative activities that involve a high degree of risk. The following risk factors should be considered in assessing the Group's activities. Should any one or more of these risks occur, it could have a material adverse effect on the business, prospects, assets, financial position or operating results of the Group. The risks noted below do not necessarily comprise all those faced by the Group. Additional risks not currently known to the Group or that the Group currently deems would not likely influence an investor's decision to purchase securities of the Group may also impact the Group's business, prospects, assets, financial position or operating results.

#### **Early Stage Projects and Dependence on Mineral Exploration Projects**

Each of the Group's projects is at the exploration stage. There is no certainty that the expenditures made by the Group towards the search and evaluation of mineral deposits on these or any other properties will result in discoveries of commercially exploitable reserves. Furthermore, unless the Group acquires additional properties or projects, any adverse developments affecting these projects or the Group's rights to develop mining concessions that are held on these properties, could materially adversely affect the Group's business, financial condition and results of operations.

#### **Mineral Resources**

The resource estimates for the Cerrado Verde Project are estimates only and no assurances can be given that the estimated levels of potash will actually be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling and exploration results and industry practices. Estimates made at any given time may significantly change when new information becomes available or when parameters that were used for such estimates change. While the Group believes that the resource estimates included are well established, by their nature resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. The extent to which resources may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery. The evaluation of reserves or resources is always influenced by economic and technological factors, which may

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

### FINANCIAL CONTROLS AND RISK MANAGEMENT (CONTINUED)

change over time. Currently, the Group does not have any measured and indicated mineral resources or proven and probable reserves (as such terms are defined in NI 43-101) on any of its properties. No assurance can be given that mineralization will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade, geological formation and proximity to infrastructure; commodity prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. If the Group is unable to upgrade the current estimated inferred mineral resources on the Cerrado Verde Project to measured and indicated mineral resources or proven and probable mineral reserves in sufficient quantities to justify commercial operations, it would be unable to develop a mine on the Cerrado Verde Project and its business, financial condition and results of operations could be adversely affected.

#### **Exploration and Operating Risks**

The exploration for mineral deposits is a speculative venture involving a high degree of risk. Even a combination of careful evaluation, experience and knowledge may not eliminate such risk. Unusual or unexpected rock formations, unanticipated changes in metallurgical characteristics and mineral recovery, environmental hazards, fires, power outages, labour disruptions, flooding, cave-ins, landslides, unfavourable operating conditions and the inability of the Group to obtain suitable machinery, equipment or labour are all risks involved with the conduct of exploration programs and the operation of mines. Should any of these risks and hazards adversely affect the Group's mining operations or activities, it may cause an increase in the cost of operations to the point where it is no longer economically feasible to continue such operations or activities. It may also require the Group to write down the carrying value of one or more mines or a property, cause delays or a stoppage in mineral exploration, development or production, result in damage to or destruction of mineral properties or processing facilities, and may result in personal injury or death or legal liability, all of which may have a material adverse effect on the Group's financial condition, results of operation, and future cash flows. Substantial expenditures may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site, and substantial additional financing may be required. There is no assurance that commercial quantities of potash or other commercially desirable minerals will be discovered on the Group's current properties or other future properties, nor is there any assurance that the Group's exploration program on such properties will yield positive results.

#### **Economic Extraction of Minerals from Identified Deposits May Not be Viable**

The development of any of the Group's projects into commercially viable mines cannot be assured. Whether a mineral deposit will be commercially viable depends on a number of factors, including the particular attributes of a deposit, such as its size, grade and geological structure (including the fact that there can be no assurance that Verdete deposits will prove suitable for the commercial mining and production of potash); prevailing commodity prices, which are highly cyclical; costs and efficiency of recovery and production methods that can be employed; proximity to infrastructure; availability and costs of additional funding; and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of commodities and environmental protection. Estimates of mineral resources and mineral reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and technical report studies. This information is used to calculate estimates of the capital cost and operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the mineral resource, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, it is possible that the actual capital cost, operating costs and economic returns of any proposed mine may differ from those estimated and such differences could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. The effect of these factors cannot be accurately predicted but any combination of these factors may result in the Group not receiving an adequate return on its invested capital, if any, and/or may result in the Group being unable to develop a mineral deposit into an operating mine. There can be no assurance that the Group will be able to complete development of any development project at all or on time or on budget due to, among other things, and in addition to those factors described above, changes in the economics of the mining project, delays in receiving required consents, permits and licenses (including mineral subsurface rights), the delivery and installation of plant and equipment and cost overruns, or that the Group's personnel, systems, procedures and controls will be adequate to support operations. Should any of these events occur, it would have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

### FINANCIAL CONTROLS AND RISK MANAGEMENT (CONTINUED)

#### **Product Development**

Substantial expenditures may be required to develop a commercially viable method for producing ThermoPotash or for manufacturing conventional potash salts from Verdete, and substantial additional financing may be required. There is no assurance that such commercially viable methods will be discovered or developed to the point of commercial production. There can be no assurance that ThermoPotash will prove suitable for its intended use or be able to compete against other fertilizer products, whether based on potash or other minerals.

#### **Unproven market**

Currently, ThermoPotash is not commercially produced or sold in Brazil. As a consequence, there is no current market for this product. Should commercial demand for ThermoPotash fail to develop, the Group's business model may not be appropriate.

#### **Uninsurable Risks**

The exploration, development and production of mineral properties involves numerous risks including unexpected or unusual geological operating conditions such as rock bursts, cave-ins, fires, flooding and earthquakes. Insurance may not be available to cover all of these risks, may only be available at economically unacceptable premiums or may be inadequate to cover any resulting liability. Any uninsured liabilities that arise would have a material adverse effect on the Group's business and results of operations.

#### **Operations in Foreign Countries and Regulatory Requirements**

The Group's principal properties are located in Brazil and mineral exploration and mining activities may be affected in varying degrees by changes in political, social and financial stability, inflation and changes in government regulations relating to the mining industry. Any changes in regulations or shifts in political, social or financial conditions are beyond the control of the Group and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety. Brazil's status as a developing country may make it more difficult for the Group to obtain any financing required for the exploration and development of its properties due to real or perceived increased investment risk. Currently there are no restrictions on the repatriation from Brazil on the earnings of foreign entities. Capital investments registered with the central bank in Brazil may similarly be repatriated. There can be no assurance that restrictions on repatriation of earnings and capital investments from Brazil will not be imposed in the future.

#### **Competition**

The Group competes with other mining companies, many of which have greater financial and technical resources and experience, particularly with respect to the potash industry and the limited number of mineral opportunities available in South America. Competition in the mining industry is primarily for properties which can be developed and can produce economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. In addition, many competitors not only explore for and mine potash, but conduct refining and marketing operations on a world-wide basis. Such competition may result in the Group being unable to acquire desired properties on terms acceptable to the Group, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. The Group's inability to compete with other mining companies for these resources would have a material adverse effect on the Group's business and results of operations. In the future, if the Cerrado Verde Project is brought into production, the Group may also compete with other potash mining and/or marketing companies, many of which have greater marketing, financial and technical resources and experience, in exporting and marketing its potash or potash-based products. In addition, in such circumstances the Group will be vulnerable to increases in the supply of potash beyond market demand either from the opening of new potash mines or the expansion of existing potash mines by the Group's competitors, which could depress prices and have a material adverse effect on the Group's business, financial condition and results of operation.

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

### FINANCIAL CONTROLS AND RISK MANAGEMENT (CONTINUED)

#### **Title Matters**

While the Group has diligently investigated title to all mineral properties and, to the best of its knowledge, title to all properties is in good standing; this should not be construed as a guarantee of title. The properties may be affected by undetected defects in title, such as the reduction in size of the mineral claims and other third party claims affecting the Group's priority rights, at the discretion of the DNPM. The Group's interests in mineral properties are comprised of exclusive rights under government licences and contracts to conduct operations in the nature of exploration and, in due course if warranted, development and mining, on the licence areas. Maintenance of such rights is subject to ongoing compliance with the terms of such licences and contracts.

#### **Uncertainty of Acquiring Necessary Permits**

The Group's current and future operations will require approvals and permits from various federal, state and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There is no assurance that delays will not occur in connection with obtaining all necessary renewals of such approvals and permits for the existing operations or additional approvals or permits for any possible future changes to operations. Prior to any development on any of its properties, the Group must receive permits from appropriate governmental authorities. There can be no assurance that the Group will continue to hold all permits necessary to develop or continue operating at any particular property or obtain all required permits on reasonable terms or on a timely basis.

#### **No Production Revenues**

The Group does not commercially mine, produce or sell any mineral products at this time. The Group does not expect to generate revenues from mining operations in the foreseeable future. The Group expects to continue to incur losses until such time as its properties enter into commercial production and generate sufficient revenues to fund its continuing operations. The exploration and development of the Group's properties will require the commitment of substantial resources to conduct time-consuming exploration and development programs. There can be no assurance that the Group will generate any revenues or achieve profitability. There can be no assurance that the underlying assumed levels of expenses will prove to be accurate. There can be no assurance that significant additional losses will not occur in the near future or that the Group will be profitable in the future. The Group's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the Group's acquisition of additional properties and other factors, many of which are beyond the Group's control.

#### **Uncertainty of Additional Capital**

In the past, the Group has relied on sales of equity securities to meet its capital requirements. The development of the Group's properties depends upon the Group's ability to obtain financing through the joint venturing of projects, private placement financing, public financing or other means. There is no assurance that the Group will be successful in obtaining the required financing. The ability of the Group to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions as well as the business performance of the Group. The development and exploration of the Group's projects may require substantial additional financing. Failure to obtain such financing may result in delaying or indefinite postponement of exploration, development or production on any or all of the Group's projects or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Group. If additional financing is raised by the Group through the issuance of securities from treasury, control of the Group may change and security holders may suffer additional dilution. See "Risk Factors – Dilution".

#### **Government Royalties**

The Federal Government of Brazil collects royalties on mineral production, with up to half of such royalties being paid to surface rights owners. The current Brazilian federal royalty applicable to fertilizer production is a 2% net smelter return ("NSR"). This level, and the level of any other royalties, payable to the Brazilian government in respect of the production of minerals may be varied at any time as a result of changing legislation, which could materially adversely affect the Group's results of operations.

#### **Market Factors and Volatility of Commodity Prices**

The Group's future profitability and long term viability will depend, in large part, on the global market price of minerals produced and their marketability. The marketability of mineralized material which may be acquired or discovered by the Group will be affected by numerous factors beyond the control of the Group. These factors include market fluctuations in the prices of minerals sought, which are highly volatile, inflation, consumption patterns, speculative activities, international political and economic trends, currency exchange fluctuations, interest rates, production costs and rates of production. The effect of these factors cannot be accurately predicted, but may result in the Group not receiving an adequate return on invested capital. Prices of certain minerals have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the control of the Group. Future mineral prices cannot be accurately predicted. A severe decline in the price of a mineral being produced or expected to be produced by the Group would have a material adverse effect on the Group, and could result in the suspension of mining operations by the Group.

#### **Cyclical Industry**

The market for potash tends to move in cycles. Periods of high demand, increasing profits and high capacity utilization lead to new plant investment and increased production. This growth increases supply until the market is over-saturated, leading to declining prices and declining capacity utilization until the cycle repeats. This cyclicity in prices can result in supply/demand imbalances and pressures on potash prices and profit margins which may impact the Group's financial results and common share prices.

The potash industry is dependent on conditions in the economy generally and the agriculture sector. The agricultural sector can be affected by adverse weather conditions, cost of inputs, commodity prices, animal diseases, the availability of government support programs and other uncertainties that may affect sales of fertilizer products.

#### **Exchange Rate Fluctuations**

Exchange rate fluctuations may adversely affect the Group's financial position and results. The Group's financial results are reported in Canadian Dollars and its costs are incurred primarily in British Pounds, Canadian Dollars, and Brazilian Reals. The appreciation of the British Pound or Brazilian Real against the Canadian Dollar could increase the actual capital and operating costs of the Group's mineral exploration projects and materially adversely affect the results presented in the Group's financial statements. Currency exchange fluctuations may also materially adversely affect the Group's future cashflow from operations, its results of operations, financial condition and prospects. The Group does not currently have in place a policy for hedging against foreign currency risks. The Group manages foreign currency risk by regularly reviewing the balances held in currencies other than the functional currency.

#### **Dependence on Key Executives and Technical Personnel**

The Group is currently dependent on the services of Cristiano Veloso, the President and Chief Executive Officer of the Group. Locating mineral deposits in Brazil depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. Due to the relatively small size of the Group, the loss of Mr. Veloso or the Group's inability to attract and retain additional highly skilled employees may materially adversely affect its business and future operations. The Group does not currently carry any "key man" life insurance on any of its executives. The nonexecutive directors of the Group devote only part of their time to the affairs of the Group.

#### **Lack of Hedging Policy**

The Group does not have a resource hedging policy and has no present intention to establish one. Accordingly, the Group has no protection from declines in mineral resource prices. The Group will keep under review the merits of hedging foreign currency reserves against foreign currency exchange rate fluctuations.

#### **No History of Earnings**

The Group has no history of earnings, and there is no assurance that any of the properties it now or may hereafter acquire or obtain an interest in will generate earnings, operate profitably, or provide a return on investment in the future. The Group has not generated operating revenue since incorporation. Management anticipates that the Group will experience net losses as a result of ongoing exploration and general corporate and administrative costs and expenses until such time as revenue generating activity is commenced.

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

### FINANCIAL CONTROLS AND RISK MANAGEMENT (CONTINUED)

#### **Dilution**

The Group currently has 2,890,469 share options and 208,686 brokers' warrants outstanding. To the extent the Group should, in future, issue any warrants, additional options, convertible securities or other similar rights, the holders of such securities will have the opportunity to profit from a rise in the market price of the Ordinary Shares with a resulting dilution in the equity interest of any persons who become holders of Ordinary Shares. The Group's ability to obtain additional financing during the period such rights are outstanding may be adversely affected and the existence of the rights may have an adverse effect on the price of the Ordinary Shares. The holders of warrants, options and other rights may exercise such securities at a time when the Group would, in all likelihood, be able to obtain any needed capital by a new offering of securities on terms more favourable than those provided by the outstanding rights. In some circumstances, the increase in the number of Ordinary Shares issued and outstanding and the possibility of sales of such shares may have a depressive effect on the price of the Ordinary Shares. In addition, as a result of such additional Ordinary Shares, the voting power of the Group's existing shareholders may be diluted.

#### **Officers and Directors of the Group Own Significant Ordinary Shares and Can Exercise Significant Influence**

The officers and directors of the Group, as a Group, beneficially own, on a non-diluted basis, approximately 12.6% of the outstanding Ordinary Shares. As such, as shareholders, the officers and directors will be able to exert significant influence on matters requiring approval by shareholders, including the election of directors and the approval of any significant corporate transactions. The concentration of ownership may also have the effect of delaying, deterring or preventing a change in control and may make some transactions more difficult or impossible to complete without the support of these shareholders.

#### **Future Sales of Ordinary Shares by Existing Shareholders**

Sales of a large number of Ordinary Shares in the public markets, or the potential for such sales, could decrease the trading price of the Ordinary Shares and could impair the Group's ability to raise capital through future sales of Ordinary Shares. Each investor should carefully consider the foregoing risk factors and review with their professional advisors the tax and other implications of making an investment in any securities of the Group.

#### **Conflicts of Interest**

Directors of the Group are or may become directors of other reporting companies or have significant shareholdings in other mineral resource companies and, to the extent that such other companies may participate in ventures in which the Group may participate, the directors of the Group may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The Group and its directors attempt to minimize such conflicts. In the event that such a conflict of interest arises at a meeting of the directors of the Group, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In appropriate cases the Group will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. The directors of the Group are required to act honestly, in good faith and in the best interests of the Group. In determining whether or not the Group will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Group, the degree of risk to which the Group may be exposed and its financial position at that time. Other than as indicated, the Group has no other procedures or mechanisms to deal with conflicts of interest.

# AMAZON MINING HOLDING PLC

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

### DIVIDENDS

No dividends will be distributed for the year ended 31 December 2010.

### DIRECTORS

The directors during the period under review were:

Cristiano Veloso  
Getuilo Lamartine de Paula Fonseca  
Peter Gundy  
Henrique Brandao Cavalcanti  
Renato Couto Gomes  
Jeddiah Kurt Richardson

### GROUP'S POLICY ON PAYMENT OF CREDITORS

It is the Group's policy to settle all amounts due to creditors in accordance with agreed terms of supply and market practice in the relevant country.

The Group's average creditor payment period at 31 December 2010 was 45 days (2009: 58 days). The Company's average creditor payment period was 34 days (2009: 64 days).

### SUBSTANTIAL SHARE INTERESTS

At 3 March 2011 Amazon Mining Holding Plc was aware of the following substantial share interests:

	Number of Ordinary Shares	% of Share Capital
Cristiano Veloso	2,636,369	8.25%
Jed Richardson	686,500	2.15%

### FINANCIAL INSTRUMENTS

The Group uses financial instruments comprising cash, liquid resources and items such as short-term debtors and creditors that arise from its operations. These financial instruments are the sole source of finance for the Group's operations. The principal risks relate to currency exposure and liquidity.

The Group's cash resources are held in GB Pounds, Canadian Dollars and Brazilian Reais. Exchange rate fluctuations may adversely affect the Group's financial position and results. The Group's financial results are reported in Canadian Dollars and its costs are primarily incurred in GB Pounds, Canadian Dollars and Brazilian Reais. The appreciation of GB Pounds or Brazilian Reais against the Canadian Dollar could increase the actual capital and operating costs of the Group's mineral exploration projects and materially adversely affect the results presented in the Group's financial statements. Currency exchange fluctuations may also materially adversely affect the Group's future cash flow from operations, its results of operations and its financial condition.

The policy in relation to the translation of foreign currency assets and liabilities is set out in note 2 'Accounting Policies Foreign Currency Transactions' to the consolidated financial statements.

Cash balances in GB Pounds and Brazilian Reais are kept under constant review.

## AMAZON MINING HOLDING PLC

### REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

#### SUBSEQUENT EVENTS

On 11 January 2011 the Company issued 2,398,100 ordinary shares of 25 pence at \$4.17 per share raising \$9.4 million after expenses. On 20 January 2011 the company issued 140,801 share options to officers of the company. The options are exercisable at \$8.30 each and expire on 19 January 2016.

#### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

#### AUDITORS

The auditors, PKF (UK) LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

ON BEHALF OF THE BOARD:



C Veloso  
Director  
4 March 2011

## AMAZON MINING HOLDING PLC

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; 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 are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## AMAZON MINING HOLDING PLC

### CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

In formulating the Company's corporate governance procedures the Board of Directors takes due regard of the principles of good governance set out in the Revised Combined Code issued by the Financial Reporting Council in June 2008 (as appended to the Listing Rules of the Financial Services Authority) and the size and development of the Group. The Group also has regard to the Quoted Companies Alliance (QCA) Guidelines on Corporate Governance for Smaller Companies.

The Board of Amazon Mining Holding PLC is made up of two executive directors and four non-executive directors. C Veloso is the Group's Chief Executive Officer and Jed Richardson is the Vice-President of Corporate Development. It is the Board's policy to maintain independence by having at least half of the Board comprising non-executive directors. The structure of the Board ensures that no one individual or group dominates the decision making process.

The Board corresponds regularly via email and meets via teleconference at least quarterly, thus providing effective leadership and overall control of the Group's affairs through the schedule of matters reserved for its decision. This includes the approval of the budget and business plan, major capital expenditure, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the directors in a timely manner, prior to Board meetings. The Board delegates certain of its responsibilities to Board committees which have clearly defined terms of reference. Between Board meetings, the executive director, the chief financial officer, non-executive directors and key operations personnel meet on a regular basis to review and discuss progress.

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that all Board procedures are followed. Any director may take independent professional advice at the Group's expense in the furtherance of his duties.

The Audit Committee which meets not less than quarterly and considers the Group's financial reporting (including accounting policies) and internal financial controls, is chaired by P Gundy, the other members being R Gomes and J Richardson. The committee receives reports from management and from the Group's auditors. The Group has in place a series of procedures and controls designed to identify and prevent the risk of loss. These procedures are formally documented and are reported on regularly. The Audit Committee has reviewed the systems in place and considers these to be appropriate.

The Remuneration Committee which meets at least once a year and is responsible for making decisions on directors' remuneration packages is chaired by P Gundy and R Gomes is the other committee member.

Remuneration of executive directors is established by reference to the remuneration of executives of equivalent status both in terms of time commitment, level of responsibility of the position and by reference to their job qualifications and skills. The Remuneration Committee will also have regard to the terms which may be required to attract an executive of equivalent experience to join the Board from another company. Such packages include performance related bonuses and the discretionary grant of share options.

The Corporate Governance and Nominating Committee meets at least once a year and is responsible for regularly reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board with regard to any changes. This committee is chaired by P Gundy and C Veloso is the other committee member.

The Company's principal communication with its shareholders is through the Annual General Meeting and through the annual report and accounts, news releases and interim statements.

## REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF AMAZON MINING HOLDING PLC

We have audited the financial statements of Amazon Mining Holding plc for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, the group and company balance sheets, the group and company statements of cash flows, the consolidated and company statements 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the statement of directors' responsibilities, 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 the financial and non-financial information in the annual 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 2010 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

### **Separate opinion in relation to IFRSs**

As explained in Note 2.1 to the group financial statements the group, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF AMAZON MINING HOLDING PLC (CONTINUED)

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept 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.

PKF (UK) LLP

Nicole Kissun (Senior statutory auditor)  
for and on behalf of PKF (UK) LLP, Statutory auditor

London, UK  
4 March 2011

## AMAZON MINING HOLDING PLC

### INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF AMAZON MINING HOLDING PLC IN RESPECT OF COMPATIBILITY WITH CANADIAN GAAS

In accordance with the requirement contained in National Instrument 52-107 we report below on the compatibility of Canadian Generally Accepted Auditing Standards ("Canadian GAAS") and International Standards on Auditing (UK and Ireland).

We conducted our audit for the year ended 31 December 2010 in accordance with International Standards of Auditing (UK and Ireland). There are no material differences in the form or content of our audit report, as compared to an auditor's report prepared in accordance with Canadian GAAS and if this report were prepared in accordance with Canadian GAAS it would contain an unmodified audit opinion.

PKF (UK) LLP

PKF (UK) LLP  
London, UK  
4 March 2011

## AMAZON MINING HOLDING PLC

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010  
(EXPRESSED IN CANADIAN DOLLARS)

	Note	2010 \$	2009 \$
<b>Continuing operations</b>			
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		(2,242,071)	(1,370,609)
Exceptional share issue costs	15	-	(226,113)
Write down of deferred exploration costs		(424,091)	(15,517)
Exploration costs		-	(228,846)
Exchange (losses)/gains		(21,236)	415,038
Operating loss	4	(2,687,398)	(1,426,047)
Finance income	6	224,300	68,420
Loss before tax		(2,463,098)	(1,357,627)
Income tax expense	7	(57,757)	(9,527)
<b>Loss for the period attributable to equity holders of the parent</b>		<b>(2,520,855)</b>	<b>(1,367,154)</b>
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operations		65,178	344,097
Other comprehensive income for the year (net of tax)		65,178	344,097
<b>Total comprehensive income for the year attributable to equity holders of the parent</b>		<b>(2,455,677)</b>	<b>(1,023,057)</b>
<b>Loss per share</b>			
	Note	2010	2009
Basic and diluted loss per share	9	(0.089)	(0.049)

# AMAZON MINING HOLDING PLC

## BALANCE SHEETS

As at 31 December 2010  
(EXPRESSED IN CANADIAN DOLLARS)

	Note	Group 2010 \$	Company 2010 \$	Group 2009 \$	Company 2009 \$
<b>Assets</b>					
Property, plant and equipment	10	80,471	9,670	58,725	9,176
Intangible assets	11	4,106,600	297,321	2,025,871	21,351
Investments	12	-	14,817,362	-	9,685,667
Total non-current assets		4,187,071	15,124,353	2,084,596	9,716,194
Trade and other receivables	13	52,838	32,906	324,709	276,399
Cash and cash equivalents	14	7,525,013	5,277,050	7,568,538	7,520,478
Total current assets		7,577,851	5,309,956	7,893,247	7,796,877
Total assets		11,764,922	20,434,309	9,977,843	17,513,071
<b>Equity attributable to the equity holders of the parent</b>					
Issued capital	15	12,288,870	12,288,870	11,870,003	11,870,003
Share premium		10,759,248	10,759,248	7,227,445	7,227,445
Warrants reserve	16	163,631	163,631	-	-
Merger reserve		(4,556,596)	-	(4,556,596)	-
Translation reserve		631,208	-	566,030	-
Accumulated losses		(8,389,867)	(3,211,210)	(6,281,393)	(1,956,335)
Total equity		10,896,494	20,000,539	8,825,489	17,141,113
<b>Liabilities</b>					
Trade and other payables	18	868,428	433,770	940,275	159,879
Payable in respect of share purchase agreement	15	-	-	212,079	212,079
Total current liabilities		868,428	433,770	1,152,354	371,958
Total liabilities		868,428	433,770	1,152,354	371,958
Total equity and liabilities		11,764,922	20,434,309	9,977,843	17,513,071

ON BEHALF OF THE BOARD:



C Veloso  
Director

Approved and authorised for issue by the Board on 4 March 2011

# AMAZON MINING HOLDING PLC

## STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2010  
(EXPRESSED IN CANADIAN DOLLARS)

	Group 2010 \$	Company 2010 \$	Group 2009 \$	Company 2009 \$
<b>Cash flows from operating activities</b>				
Operating loss	(2,687,398)	(1,689,987)	(1,426,047)	(1,248,033)
Depreciation	14,678	4,272	13,152	3,319
Write down of deferred exploration expenses	424,091	-	15,517	-
Exceptional share issue cost	-	-	226,113	226,113
Foreign exchange differences	210,009	21,236	(355,558)	-
Share-based payments	412,381	412,381	222,830	222,830
Decrease/(Increase) in receivables	41,170	12,792	(252,748)	(214,856)
(Decrease)/increase in payables	(571,625)	(17,254)	407,114	240,660
<b>Net cash utilised in operating activities</b>	<b>(2,156,694)</b>	<b>(1,256,560)</b>	<b>(1,149,627)</b>	<b>(769,967)</b>
Tax paid	(17,975)	-	(9,527)	(9,527)
<b>Net cash utilised in operating activities</b>	<b>(2,174,669)</b>	<b>(1,256,560)</b>	<b>(1,159,154)</b>	<b>(779,494)</b>
<b>Cash flows from investing activities</b>				
Interest received	242,922	41,354	51,881	41,725
Acquisition of subsidiary (net of cash acquired)	-	-	(144,873)	-
Acquisition and evaluation of exploration assets	(2,258,906)	(105,557)	(560,365)	(7,104)
Acquisition of property, plant and equipment	(37,983)	(4,766)	-	-
<b>Net cash from investing activities</b>	<b>(2,053,967)</b>	<b>(68,969)</b>	<b>(653,357)</b>	<b>34,619</b>
<b>Cash flows from financing activities</b>				
Proceeds from the issue of share capital	4,505,250	4,505,250	54,000	54,000
Share issue expenses	(270,216)	(270,216)	-	-
Advance of loan to subsidiary	-	(5,131,695)	-	(827,997)
<b>Net cash from financing activities</b>	<b>4,235,034</b>	<b>(896,661)</b>	<b>54,000</b>	<b>(773,997)</b>
Net increase/(decrease) in cash and cash equivalents	6,398	(2,222,190)	(1,758,511)	(1,518,872)
Cash and cash equivalents at beginning of period	7,568,538	7,520,478	9,318,706	8,677,342
Effect of exchange rate fluctuations on cash held	(49,923)	(21,238)	8,343	362,008
<b>Cash and cash equivalents at end of period</b>	<b>7,525,013</b>	<b>5,277,050</b>	<b>7,568,538</b>	<b>7,520,478</b>

## AMAZON MINING HOLDING PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group (EXPRESSED IN CANADIAN DOLLARS)	Share capital \$	Share premium \$	Share warrant reserve \$	Merger reserve \$	Translation reserve \$	Accumulated losses \$	Total \$
Balance at 1 January 2009	11,494,614	6,048,360	986,562	(4,556,596)	221,933	(5,137,069)	9,057,804
<b>Comprehensive loss</b>							
Loss for the year	-	-	-	-	-	(1,367,154)	(1,367,154)
Foreign exchange translation differences	-	-	-	-	344,097	-	344,097
Total other comprehensive loss	-	-	-	-	344,097	-	344,097
Total comprehensive loss for the year	-	-	-	-	344,097	(1,367,154)	(1,023,057)
<b>Transactions with owners</b>							
Issue of share capital	356,264	-	-	-	-	-	356,264
Share issue expenses	-	163,048	-	-	-	-	163,048
Warrants exercised	19,125	34,875	(5,400)	-	-	-	48,600
Expiry of warrants	-	981,162	(981,162)	-	-	-	-
Share-based payments	-	-	-	-	-	222,830	222,830
Transactions with owners	375,389	1,179,085	(986,562)	-	-	222,830	790,742
Balance at 31 December 2009	11,870,003	7,227,445	-	(4,556,596)	566,030	(6,281,393)	8,825,489

## AMAZON MINING HOLDING PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Group (EXPRESSED IN CANADIAN DOLLARS)	Share capital \$	Share premium \$	Share warrant reserve \$	Merger reserve \$	Translation reserve \$	Accumulated losses \$	Total \$
Balance at 1 January 2010	11,870,003	7,227,445	-	(4,556,596)	566,030	(6,281,393)	8,825,489
<b>Comprehensive loss</b>							
Loss for the year	-	-	-	-	-	(2,520,855)	(2,520,855)
Foreign exchange translation differences	-	-	-	-	65,178	-	65,178
Total other comprehensive loss	-	-	-	-	65,178	-	65,178
Total comprehensive loss for the year	-	-	-	-	65,178	(2,520,855)	(2,455,677)
<b>Transactions with owners</b>							
Issue of share capital	417,608	4,085,992	-	-	-	-	4,503,600
Share issue expenses	-	(554,580)	163,631	-	-	-	(390,949)
Options exercised	1,259	391	-	-	-	-	1,650
Share-based payments	-	-	-	-	-	412,381	412,381
Transactions with owners	418,867	3,531,803	163,631	-	-	412,381	4,526,682
Balance at 31 December 2010	12,288,870	10,759,248	163,631	(4,556,596)	631,208	(8,389,867)	10,896,494

#### Merger Reserve

The merger reserve arose from the acquisition of Amazon Mining Limited by Amazon Mining Holding PLC. This acquisition was accounted for as a merger whereby the consolidated financial statements were presented as if the business previously carried out through Amazon Mining Limited had always been owned and controlled by the Company.

## AMAZON MINING HOLDING PLC

### COMPANY STATEMENT OF CHANGES IN EQUITY

<b>Company</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Share warrant reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
<b>(EXPRESSED IN CANADIAN DOLLARS)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 January 2009	11,494,614	6,048,360	986,562	(1,355,911)	17,173,625
<b>Comprehensive loss</b>					
Loss for the year	-	-	-	(823,254)	(823,254)
Total comprehensive loss for the year	-	-	-	(823,254)	(823,254)
<b>Transactions with owners</b>					
Issue of share capital	356,264	-	-	-	356,264
Share issue expenses	-	163,048	-	-	163,048
Warrants exercised	19,125	34,875	(5,400)	-	48,600
Expiry of warrants	-	981,162	(981,162)	-	-
Share-based payments	-	-	-	222,830	222,830
Transactions with owners	375,389	1,179,085	(986,562)	222,830	790,742
Balance at 31 December 2009	11,870,003	7,227,445	-	(1,956,335)	17,141,113
Balance at 1 January 2010	11,870,003	7,227,445	-	(1,956,335)	17,141,113
<b>Comprehensive loss</b>					
Loss for the year	-	-	-	(1,667,256)	(1,667,256)
Total comprehensive loss for the year	-	-	-	(1,667,256)	(1,667,256)
<b>Transactions with owners</b>					
Issue of share capital	417,608	4,085,992	-	-	4,503,600
Share issue expenses	-	(554,580)	163,631	-	(390,949)
Options exercised	1,259	391	-	-	1,650
Share-based payments	-	-	-	412,381	412,381
Transactions with shareholders	418,867	3,531,803	163,631	412,381	4,526,682
Balance at 31 December 2010	12,288,870	10,759,248	163,631	(3,211,210)	20,000,539

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 1. Nature of operation and going concern

The Group is at an early stage of development and in common with many mineral exploration companies, it raises financing for its exploration and appraisal activities in discrete tranches. The Group has working capital of \$6,709,423 at 31 December 2010 and raised additional finance of approximately \$9.4 million in a private placement in January 2011. In view of this, the directors consider that sufficient funds will be available to progress the Group's planned exploration programmes and that it has adequate working capital for at least the next twelve months. The directors therefore consider it appropriate to prepare these financial statements on the going concern basis.

However, the existing funds will not be sufficient to bring the projects into development and production should it be warranted and, in due course, further funding will be required. In the event that the Group is unable to secure further finance it may not be able to fully develop its projects which may have a consequential impact on the recoverability of the carrying value of the related intangible assets. Additionally if the Group is unable to develop its projects then it will have a consequential impact on the recoverability of the carrying value of investments in subsidiaries held by the parent company.

### 2. Significant accounting policies

Amazon Mining Holding Plc (the "Company") is a company registered in England and Wales. The consolidated financial statements of the Company for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

#### 2.1 Statement of compliance

The consolidated financial statements and company financial statements of Amazon Mining Holding plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union and with IFRSs and their interpretations issued by the IASB. They have also been prepared with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") that are relevant to its operations and effective for accounting periods beginning 1 January 2010. The adoption of these new and revised Standards and Interpretations, including IFRS 3 Business Combinations, had no material effect on the profit or loss or financial position of the Group.

The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 2. Significant accounting policies (continued)

#### 2.2 Changes in accounting policies

The financial statements are presented in Canadian dollars. The parent company changed its functional currency to Canadian Dollars from GB pounds on 1 January 2010 due to the increase in Canadian dollar expenditure and Canadian dollar financing expected during the year. Foreign operations are included in accordance with the policies set out in note 2.4. At 31 December 2010 the closing rate of exchange of Canadian dollars to 1 GB pound was 1.55 (2009: 1.67) and the average rate of exchange of Canadian dollars to 1 GB pound for the year was 1.59 (2009: 1.78).

The change of the Group's presentational currency has been accounted for in accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates'.

On the change of the Group's presentational currency, comparative figures previously reported in GB pounds were translated into Canadian dollars as follows:

- income and expenses were translated at the average exchange rate for the relevant period;
- assets and liabilities were translated at the closing exchange rate on the relevant balance sheet date; and
- equity items were translated at the closing exchange rate.

The exchange rates used were as follows:

	2010 £1=CAD\$	2009 £1=CAD\$
Average rate	1.59	1.78
Closing rate	1.55	1.67

As a result of the change of the Group's presentational currency, accumulated losses at 31 December 2009 were increased by cumulative currency translation differences of \$360,085. The cumulative currency translation differences represent the difference in the translation of the Group's losses from GB pounds into Canadian dollars at average exchange rates and their translation at the closing exchange rate on 31 December 2009.

The change of the Company's functional currency from GBP to Canadian dollars was accounted for prospectively from 1 January 2010. Comparative information was translated at the closing exchange rate of Canadian Dollars to 1 GB Pound of 1.67. The change in the company's presentational currency had no material impact on the foreign currency translation reserves.

#### 2.3 Basis of consolidation

The Group financial statements consolidate the financial statements of Amazon Mining Holding Plc (AMH Plc) and its subsidiaries (the "Group") for the year ended 31 December 2010.

AMH Plc was incorporated on 14 August 2006, and on that date it acquired the issued share capital of Amazon Mining Limited by way of a share-for-share exchange. The latter had one active wholly owned subsidiary, Verde Fertilizantes Ltda (formerly Amazon Pesquisa Mineral e Mineracao Ltda). The consideration for the acquisition was satisfied by the issue of 54,549,920 ordinary shares in AMH Plc to the shareholders of Amazon Mining Limited.

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 2. Significant accounting policies (continued)

#### 2.3 Basis of consolidation (continued)

As AMH Plc was a newly incorporated entity which acquired a group by way of issue of shares to the existing shareholders of Amazon Mining Limited the transaction was not a business combination within the meaning of IFRSs. The transaction was effectively treated as a group reorganisation and the consolidated financial statements are presented in a way that reflects the continuation of the Amazon Mining Limited Group.

#### 2.4 Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Canadian dollars, which is the Group's presentational currency and the functional currency of the Company.

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Canadian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of total comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Canadian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to the translation reserve. They are released into the statement of total comprehensive income upon disposal.

#### 2.5 Intangible assets – deferred exploration and evaluation expenditure

All costs incurred prior to the application for the legal right to undertake exploration and evaluation activities on a project are expensed as incurred.

Exploration and evaluation costs arising following the application for the legal right are capitalised on a project-by-project basis, pending determination of the technical feasibility and commercial viability of the project. Costs incurred include appropriate technical and administrative overheads.

Exploration and evaluation activity 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

Administration costs that are not directly attributable to a specific exploration area are charged to the statement of total comprehensive income.

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 2. Significant accounting policies (continued)

#### 2.5 Intangible assets – deferred exploration and evaluation expenditure (continued)

Deferred exploration costs are carried at historical cost less any impairment losses recognised. When a project is deemed to no longer have commercially viable prospects to the Group, deferred exploration costs in respect of that project are deemed to be impaired and written off to the statement of total comprehensive income.

#### 2.6 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 those relating to deferred exploration and evaluation expenditure (refer to 2.5 above).

#### 2.7 Taxation

Current tax, including UK Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of the group's assets and liabilities and their tax base.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Current and deferred tax is recognised in the statement of total comprehensive income, except when the tax relates to items charged or credited directly in equity, in which case the tax is also recognised in equity.

#### 2.8 Trade and other receivables

Trade and other receivables are recorded at their nominal amount less provision for impairment.

A provision for impairment of trade receivables 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. Bad debts are written off when identified.

#### 2.9 Cash and cash equivalents

Cash and cash equivalents includes cash at bank, cash in hand and short-term highly liquid investments with an original maturity of three months or less.

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 2. Significant accounting policies (continued)

#### 2.9 Cash and cash equivalents (continued)

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts.

#### 2.10 Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the item, as follows:

	%	Method
Computer equipment	20	Straight line
Furniture & fixtures	10	Straight line
Leasehold improvements	10	Straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

#### 2.11 Investments

Investments are stated at their cost less impairment losses (see accounting policy 2.12).

#### 2.12 Impairment

Whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) if that is less than the asset's carrying amount.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise such as:-

- (i) unexpected geological occurrences that render the resource uneconomic
- (ii) title to the asset is compromised
- (iii) variations in mineral prices that render the project uneconomic

#### 2.13 Trade and other payables

Trade and other payables are stated at their nominal value.

#### 2.14 Equity settled share based payments

Equity-settled share-based payments are measured at fair value at the date of the grant and expensed on a straight-line basis over the vesting period, based on an estimate of shares that will eventually vest. Fair values are determined through use of a Black-Scholes based model.

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 3. Operating segments

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group's operations relate to the exploration for, and development of mineral deposits with support provided from the UK and as such the Group has only one segment.

Other geographical information

	2010			2009		
	UK	Brazil	Consolidated	UK	Brazil	Consolidated
	\$	\$	\$	\$	\$	\$
Segment revenue	-	-	-	-	-	-
Segment non-current assets	9,670	4,177,401	4,187,071	9,176	2,075,420	2,084,596

### 4. Operating loss

The operating loss is stated after charging:

	2010	2009
	\$	\$
Depreciation – owned assets	14,678	13,152
Directors' emoluments (see note 5)	422,231	271,270
Share-based payments	412,381	222,830
Write-down of exploration projects	424,091	15,517
<b>Auditors' remuneration:</b>		
Audit of these financial statements	30,842	33,845
Fees payable to the auditor for other services:		
Corporate finance	2,320	-
Other services	9,280	-

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 5. Personnel expenses

#### Directors' emoluments

	2010	2009
	\$	\$
Non-Executive Directors' fees	66,848	75,490
Salary paid to Executive Director	70,214	57,213
Management fees paid to Executive Directors	285,169	138,567
	<u>422,231</u>	<u>271,270</u>
Compulsory social security contributions	7,823	6,160
Contributions to defined contribution pension scheme	21,723	14,693
Share-based payments	98,999	154,763
	<u>550,776</u>	<u>446,886</u>

One of the directors is accruing benefits under a defined contribution pension scheme (2009: 1).

None of the directors exercised share options during the period. Details of share options issued to the directors are set out in note 21.

#### Employee costs

	2010	2009
	\$	\$
Salaries	212,049	140,432
Compulsory social security contributions	37,563	8,266
Defined contribution pension costs	21,723	14,693
Share-based payments	412,381	222,830
	<u>683,716</u>	<u>386,221</u>

The average number of employees and directors of the Group was as follows:

	2010	2009
	No.	No.
Executive directors	2	2
Non-executive directors	4	4
Administration	6	3
	<u>12</u>	<u>9</u>

The Company had no employees other than the directors during the year (2009: nil).

### 6. Finance income

	2010	2009
	\$	\$
Bank interest receivable	224,300	68,420

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 7. Income tax expense

#### Recognised in the income statement

##### Current tax

Income tax charge

Under provision in previous years

2010	2009
\$	\$
57,757	-
-	9,527
<u>57,757</u>	<u>9,527</u>

#### Reconciliation of effective tax rate

Loss before tax

Tax using the domestic Group tax rate of 28% (2009: 28%)

Effect of overseas tax rates

Non-deductible expenses

Reversal/(origination) of temporary differences on which no deferred tax has been recognised

Effect of tax losses

Under provided in previous years

2010	2009
\$	\$
<u>(2,463,098)</u>	<u>(1,357,627)</u>
(689,667)	(380,132)
(5,173)	(30,251)
236,969	149,884
(661,051)	(237,870)
1,176,679	498,369
-	9,527
<u>57,757</u>	<u>9,527</u>

#### Factors that may affect future tax charges

The Group has UK tax losses of approximately \$1,722,000 (2009: \$472,000) and overseas tax losses of approximately \$7,771,000 (2009: \$5,413,000) available to be carried forward and set off against future profits. No deferred tax asset has been recognised in the financial statements as the directors are not sufficiently certain that there will be future taxable profit to utilise these tax losses.

### 8. Loss of parent company

As permitted by section 408 of the Companies Act 2006, the performance statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was \$1,667,256 (2009: \$823,254).

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 9. Loss per share

#### Basic loss per share

The calculation of basic loss per share at 31 December 2010 was based on the loss attributable to ordinary shareholders of \$2,520,855 (2009: \$1,367,154) and a weighted average number of ordinary shares outstanding during the period ended 31 December 2010 of 28,425,533 (2009: 27,959,256) calculated as follows:

#### Loss attributable to ordinary shareholders

	2010	2009
	\$	\$
Loss for the period	(2,520,855)	(1,367,154)
Loss attributable to ordinary shareholders	<u>(2,520,855)</u>	<u>(1,367,154)</u>

#### Weighted average number of ordinary shares

	Number
Number of shares in issue on 1 January 2009	27,519,159
Effect of shares issued during period	<u>440,097</u>
Weighted average number of ordinary shares at 31 December 2009	<u>27,959,256</u>
Number of shares in issue on 1 January 2010	28,417,871
Effect of shares issued during period	<u>7,662</u>
Weighted average number of ordinary shares at 31 December 2010	<u>28,425,533</u>

There is no difference between the basic and diluted loss per share.

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 10. Property, plant and equipment - group

	Computer equipment	Furniture, and fixtures	Leasehold improve- ments	Total
	\$	\$	\$	\$
<b>Cost</b>				
Balance at 1 January 2009	39,326	30,945	4,274	74,545
Effect of movements in foreign exchange	2,612	5,125	707	8,444
Balance at 31 December 2009	41,938	36,070	4,981	82,989
Balance at 1 January 2010	41,938	36,070	4,981	82,989
Acquisitions	11,573	26,410	-	37,983
Effect of movements in foreign exchange	(725)	(1,276)	(123)	(2,124)
Balance at 31 December 2010	52,786	61,204	4,858	118,848
<b>Depreciation and impairment losses</b>				
Balance at 1 January 2009	8,026	2,591	310	10,927
Depreciation charge for the period	8,850	3,780	522	13,152
Effect of movements in foreign exchange	(98)	257	26	185
Balance at 31 December 2009	16,778	6,628	858	24,264
Balance at 1 January 2010	16,778	6,628	858	24,264
Depreciation charge for the year	9,536	4,649	493	14,678
Effect of movements in foreign exchange	(307)	(233)	(25)	(565)
Balance at 31 December 2010	26,007	11,044	1,326	38,377
<b>Carrying amounts</b>				
At 1 January 2009	31,300	28,354	3,964	63,618
At 31 December 2009	25,160	29,442	4,123	58,725
At 1 January 2010	25,160	29,442	4,123	58,725
At 31 December 2010	26,779	50,160	3,532	80,471

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 10. Property, plant and equipment - company

	<b>Office Equipment \$</b>
<b>Cost</b>	
Balance at 1 January and 31 December 2009	<u>16,593</u>
Balance at 1 January 2010	16,593
Depreciation charge for the year	4,766
Balance at 31 December 2010	<u>21,359</u>
<b>Depreciation and impairment losses</b>	
Balance at 1 January 2009	4,098
Depreciation charge for the year	<u>3,319</u>
Balance at 31 December 2009	<u>7,417</u>
Balance at 1 January 2010	7,417
Depreciation charge for the year	4,272
Balance at 31 December 2010	<u>11,689</u>
<b>Carrying amounts</b>	
At 1 January 2009	<u>12,495</u>
At 31 December 2009	<u>9,176</u>
At 1 January 2010	9,176
At 31 December 2010	<u>9,670</u>

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 11. Intangible assets - group

	Projects Rio Madeira	Caximbo	Cerrado Verde	Mimoso	Tucano	Lagamar	Apatita	Total exploration costs
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Carrying value</b>								
Balance at 1 January 2009	563,869	125,166	151,638	-	-	-	-	840,673
Acquisitions	224,370	76,924	448,121	-	1,585	-	-	751,000
On acquisition of subsidiary	-	-	-	178,649	128,420	13,701	-	320,770
Write-down	-	-	-	-	-	(15,517)	-	(15,517)
Effect of movements in foreign exchange	80,058	17,208	4,209	14,968	10,686	1,816	-	128,945
Balance at 31 December 2009	868,297	219,298	603,968	193,617	140,691	-	-	2,025,871
Balance at 1 January 2010	868,297	219,298	603,968	193,617	140,691	-	-	2,025,871
Acquisitions	35,908	10,816	1,394,535	20,148	256,578	-	880,183	2,598,168
Write-down	-	(220,365)	-	(203,726)	-	-	-	(424,091)
Effect of movements in foreign exchange	(21,607)	(9,749)	(31,190)	(10,039)	(7,817)	-	(12,946)	(93,348)
Balance at 31 December 2010	882,598	-	1,967,313	-	389,452	-	867,237	4,106,600
<b>Carrying amounts</b>								
At 1 January 2009	563,869	125,166	151,638	-	-	-	-	840,673
At 31 December 2009	868,297	219,298	603,968	193,617	140,691	-	-	2,025,871
At 1 January 2010	868,297	219,298	603,968	193,617	140,691	-	-	2,025,871
At 31 December 2010	882,598	-	1,967,313	-	389,452	-	867,237	4,106,600

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 11. Intangible assets - company

	Projects Rio Madeira \$	Cerrado Verde \$	Total exploration costs \$
<b>Cost</b>			
Balance at 1 January 2009	12,940	1,307	14,247
Acquisitions	1,485	5,619	7,104
Balance at 31 December 2009	<u>14,425</u>	<u>6,926</u>	<u>21,351</u>
Balance at 1 January 2010	14,425	6,926	21,351
Acquisitions	-	275,970	275,970
Balance at 31 December 2010	<u>14,425</u>	<u>282,896</u>	<u>297,321</u>
<b>Carrying amounts</b>			
At 1 January 2009	<u>12,940</u>	<u>1,307</u>	<u>14,247</u>
At 31 December 2009	<u>14,425</u>	<u>6,926</u>	<u>21,351</u>
At 1 January 2010	<u>14,425</u>	<u>6,926</u>	<u>21,351</u>
At 31 December 2010	<u>14,425</u>	<u>282,896</u>	<u>297,321</u>

### 12. Investments - company

	Investment in subsidiaries \$	Loans \$	Total \$
<b>Cost</b>			
Balance at 1 January 2009	4,557,052	4,157,030	8,714,082
Acquisition of Uaua Pesquisa Mineral Ltda	199,760	-	199,760
Advances during the year	-	771,825	771,825
Balance at 31 December 2009	<u>4,756,812</u>	<u>4,928,855</u>	<u>9,685,667</u>
Balance at 1 January 2010	4,756,812	4,928,855	9,685,667
Advances during the year	-	5,131,695	5,131,695
Balance at 31 December 2010	<u>4,756,812</u>	<u>10,060,550</u>	<u>14,817,362</u>

The loans balance represents an amount of \$4,157,030 due from Amazon Mining Limited and \$5,903,520 due from Verde Fertilizantes Ltda. Although the loans are technically repayable on demand, they are considered by the directors to be for the long-term use of the subsidiaries and, as there is no intention to demand repayment for the foreseeable future, the loans have been classified as investments. The loans are interest free.

## AMAZON MINING HOLDING PLC

### NOTES TO THE GROUP FINANCIAL STATEMENTS

#### 12. Investments – company (continued)

Amazon Mining Holding Plc had the following wholly owned subsidiaries at 31 December 2010:

Amazon Mining Limited registered in England and Wales.

Verde Fertilizantes Ltda (formerly Amazon Pesquisa Mineral e Mineracao Ltda) registered in Brazil.

FVS Mineracao Ltda registered in Brazil.

Uaua Pesquisa Mineral Ltda registered in Brazil

Verde Fertilizantes Ltda and FVS Mineracao Ltda are indirectly owned and all the Brazilian subsidiaries are engaged in mining exploration and development.

Amazon Mining Limited is an intermediate holding company.

#### 13. Trade and other receivables

	Group 2010	Company 2010	Group 2009	Company 2009
	\$	\$	\$	\$
Other receivables	52,838	32,906	112,630	64,320
Uncalled share capital (see note 15)	-	-	212,079	212,079
	<u>52,838</u>	<u>32,906</u>	<u>324,709</u>	<u>276,399</u>

#### 14. Cash and cash equivalents

	Group 2010	Company 2010	Group 2009	Company 2009
	\$	\$	\$	\$
Cash at bank and in hand	7,525,013	5,277,050	7,568,538	7,520,478

#### 15. Share capital

	2010 Number	2010 \$	2009 Number	2009 \$
Issued - Ordinary shares of 25p each				
At 1 January	28,417,871	11,870,003	27,519,159	11,494,614
Issued on 23 June 2010 for exercise of share options	3,333	1,259	-	-
Issued on 30 December 2010	1,080,000	417,608	-	-
Issued on 19 June 2009 in connection with acquisition of subsidiary	-	-	853,712	356,592
Issued on 21 November 2009 for exercise of share warrants	-	-	45,000	18,797
At 31 December	<u>29,501,204</u>	<u>12,289,870</u>	<u>28,417,871</u>	<u>11,870,003</u>

On 23 June 2010 the Company issued 3,333 ordinary shares of 25p each for the exercise of share options for \$0.495 each.

On 30 December 2010 the Company issued 1,080,000 shares of 25p each for \$4.17 each.

The shares issued on 19 June 2009 in connection with the acquisition of a subsidiary were issued below par value and the unpaid share capital of \$226,113 made up by the parent company under a compromise agreement with the shareholders signed during the year.

## AMAZON MINING HOLDING PLC

### NOTES TO THE GROUP FINANCIAL STATEMENTS

#### 15. Share capital (continued)

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to increase the value of the entity for the benefit of shareholders. Given the nature of the group's current activities the entity will remain dependent on equity funding in the short to medium term until such time as the Group becomes self-financing from the commercial production of mineral resources.

#### 16. Share warrants

	2010	2009
	\$	\$
Balance at beginning of year	-	986,562
Fair value of warrants issued during the year	163,631	
Fair value of warrants exercised during year	-	(5,400)
Expired during year	-	(981,162)
Balance at end of year	163,631	-

64,800 Ordinary share purchase warrants were issued on 30 December 2010, at a fair value of \$2.53 each. The fair value of the share purchase warrants is measured using the Black-Scholes model assuming an expected volatility of 70%, a risk-free interest rate of 3% and a contractual life of the option of 2 years. The fair value of services received in return for the compensation options granted is measured by reference to the fair value of the compensation options granted in the absence of information on the fair value of the services provided. Each share purchase warrant carries the right to subscribe for one ordinary share of 25p each at a price of Canadian \$4.17 per share, expiring on 30 December 2012.

#### 17. Share-based payments

During the year the Company granted share options to key personnel to purchase shares in the entity.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2010	2010	2009	2009
Outstanding at the beginning of the period	\$0.77	2,040,000	\$1.01	1,785,000
Granted during the period	\$1.61	967,000	\$0.50	805,000
Exercised during the period	\$0.495	(3,333)	-	-
Forfeited during the period	\$0.96	(161,667)	\$1.20	(550,000)
Outstanding and exercisable at the end of the period	\$1.06	2,842,000	\$0.77	2,040,000

The options outstanding at 31 December 2010 have an exercise price in the range of \$0.30 to \$2.30 and a weighted average remaining contractual life of 3.5 years. The options vest in three annual tranches commencing on the date of grant subject to the grantee's continued service. At 31 December 2010, 2,040,674 of the options had vested (2009: 1,516,667).

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 17. Share-based payments (continued)

Details of share options outstanding at 31 December 2010 are as follows:

Outstanding at beginning of period	Number of options		Outstanding at end of period	Option price \$	Exercisable period	
	Granted	Forfeited/ Exercised			Start date	Expiry date
785,000	-	(75,000)	710,000	\$1.20	14 December 2007	14 December 2012
250,000	-	-	250,000	\$0.65	19 June 2008	19 June 2013
200,000	-	(50,000)	150,000	\$0.35	19 November 2008	19 November 2013
70,000	-	(20,000)	50,000	\$0.35	3 April 2009	3 April 2014
50,000	-	-	50,000	\$0.35	30 June 2009	30 June 2014
630,000	-	(20,000)	610,000	\$0.495	24 July 2009	24 July 2014
5,000	-	-	5,000	\$0.69	26 August 2009	26 August 2014
50,000	-	-	50,000	\$0.95	11 November 2009	11 November 2014
-	280,000	-	280,000	\$1.64	30 April 2010	30 April 2015
-	250,000	-	250,000	\$1.40	31 May 2010	31 May 2015
-	325,000	-	325,000	\$1.50	30 June 2010	30 June 2015
-	112,000	-	112,000	\$2.30	13 October 2010	13 October 2015
<u>2,040,000</u>	<u>967,000</u>	<u>(165,000)</u>	<u>2,842,000</u>	<u>\$1.06</u>		

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The expected life of the option (2.5 years) is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

#### Fair value of share options and assumptions

	2010	2009
	\$	\$
Fair value of options granted during the year at measurement date	632,510	194,700
Weighted average fair value of options granted during the year	\$0.65	\$0.23
Weighted average share price	\$1.61	\$0.62
Weighted average exercise price	\$1.61	\$0.77
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	70%	70%
Option life	2.5	2.5
Expected dividends	0	0
Risk-free interest rate (based on national government bonds)	3.00%	3.40%

The expected volatility is based on the historic volatility of the share price (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. There are no market conditions associated with the share option grants.

	2010	2009
	\$	\$
Total expense recognised as employee and consultants costs	<u>412,381</u>	<u>222,830</u>

## AMAZON MINING HOLDING PLC

### NOTES TO THE GROUP FINANCIAL STATEMENTS

#### 18. Trade and other payables

	Group 2010 \$	Company 2010 \$	Group 2009 \$	Company 2009 \$
Trade payables	112,628	75,849	118,450	6,976
Other payables	546,622	168,016	15,740	5,866
Income tax	39,782	-	-	-
Amounts owed to group undertakings	-	20,509	-	20,509
Accruals	169,396	169,396	806,085	126,528
	<u>868,428</u>	<u>433,770</u>	<u>940,275</u>	<u>159,879</u>

#### 19. Commitments

The Group does not have any exploration and development capital expenditure commitments in respect of its projects (2009: \$nil).

#### 20. Financial Instruments

The board of directors determines, as required, the degree to which it is appropriate to use financial instruments and hedging techniques to mitigate risks. The main risks for which such instruments may be appropriate are foreign exchange risk, interest rate risk and liquidity risk each of which is discussed below. There is no perceived credit risk as the Group and Company have no trade receivables and minimal other receivables (see note 13) and bank deposits are made with financial institutions considered to be safe by the board of directors. The maximum credit risk to which the group and company were exposed at 31 December 2010 was group: \$7,577,851, company: \$5,309,956 (2009: group: \$7,893,247, company: \$7,796,877). There were no derivative instruments outstanding at 31 December 2010.

##### Foreign currency risk

The Group's cash resources are held in Canadian Dollars, GB Pounds and Brazilian Reais. Exchange rate fluctuations may adversely affect the Group's financial position and results. The Group's financial results are reported in Canadian Dollars and its costs are primarily incurred in Canadian Dollars, GB Pounds and Brazilian Reais. The appreciation of GB Pounds or Brazilian Reais against the Canadian Dollar could increase the actual capital and operating costs of the Group's mineral exploration projects and materially adversely affect the results presented in the Group's financial statements. Currency exchange fluctuations may also materially adversely affect the Group's future cash flow from operations, its results of operations, financial condition and prospects. The group has a general policy of not hedging against foreign currency risks. The group manages foreign currency risk by regularly reviewing the balances held in currencies other than the functional currency.

The Group and company had the following cash and cash equivalents in various currencies including its presentational currency. The amounts are stated in Canadian Dollar equivalents.

	Group 2010 \$	Company 2010 \$	Group 2009 \$	Company 2009 \$
GB Pounds	224,755	224,755	57,281	57,281
Canadian Dollars	5,052,295	5,052,295	7,463,197	7,463,197
Brazilian Reais	2,247,963	-	48,060	-
	<u>7,525,013</u>	<u>5,277,050</u>	<u>7,568,538</u>	<u>7,520,478</u>

# AMAZON MINING HOLDING PLC

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 20. Financial Instruments (continued)

The policy in relation to the translation of foreign currency assets and liabilities is set out in note 2, 'Accounting Policies Foreign Currency Transactions' to the consolidated financial statements.

Foreign currency risk sensitivity analysis showing a 10% weakening/strengthening of the GB Pound and Brazilian Reals against Canadian Dollars with all other variables held constant is as follows. 10% represents management assessment of the reasonable possible exposure.

	Equity	
	2010	2009
	\$	\$
10% weakening of GB Pound	(14,965)	(3,545)
10% strengthening of GB Pound	16,628	3,939
10% weakening of Brazilian Real	(473,290)	(387,312)
10% strengthening of Brazilian Real	578,462	473,382

The foreign currency risk sensitivity analysis for the Company relates solely to the GB Pound movements.

#### Liquidity risk

To date the Group and company have relied on shareholder funding to finance its operations. As the Group and company have finite cash resources and no material income, the liquidity risk is significant and is managed by controls over expenditure and cash resources.

#### Interest rate risk

The Group's and company's policy is to retain its surplus funds on the most advantageous term of deposit available up to twelve months maximum duration. Given that the directors do not consider that interest income is significant in respect of the Group's and company's operations no sensitivity analysis has been provided in respect of any potential fluctuations in interest rates.

#### Financial assets

The floating rate financial assets comprise interest earning bank deposits at rates set by reference to the prevailing LIBOR or equivalent to the relevant country. The Group and company have no fixed rate deposits.

#### Fair values

In the directors' opinion there is no material difference between the book value and fair value of any of the group's and company's financial instruments.

#### Classes of financial instruments

The classes of financial instruments are the same as the line items included on the face of the balance sheet and have been analysed in more detail in the notes to the accounts. All the group's and company's financial assets are categorised as loans and receivables and all financial liabilities are measured at amortised cost.

## AMAZON MINING HOLDING PLC

### NOTES TO THE GROUP FINANCIAL STATEMENTS

#### 21. Related Party transactions

Share options granted to directors and key management were as follows:

	At 31.12.09	Granted	At 31.12.10
C Veloso	500,000	-	500,000
P Gundy	165,000	250,000	415,000
H Cavalanti	165,000	-	165,000
R Gomes	165,000	-	165,000
G de Paula Fonseca	160,000	-	160,000
J Richardson	250,000	-	250,000
Directors total	1,405,000	250,000	1,655,000
Other key management	150,000	412,000	562,000
Total	1,555,000	250,000	2,217,000

The Group incurred consultancy expenses of \$285,359 (2009 \$209,397) under service agreements with key management.

The transactions between the parent company and its subsidiary Amazon Mining Limited are disclosed in note 12.

#### 22. Subsequent events

On 11 January 2011 the Group issued 2,398,100 ordinary shares of 25 pence for \$4.17 each raising proceeds of \$9,400,072 after expenses together with 143,886 broker's warrants to acquire 143,886 ordinary shares of 25p each at \$4.17 each. The broker's warrants expire on 11 January 2013.