



# **Global Alumina**

*2005 ANNUAL REPORT*

**MARCH 21, 2006**

## Forward Looking Information

Certain information in this annual report is “forward looking information”, which reflects management’s expectations regarding the Corporation’s future growth, results of operations, performance and business prospects and opportunities. In this annual report, the words “may”, “would”, “could”, “should”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate” and “expect” and similar expressions, as they relate to the Corporation, are often, but not always, used to identify forward looking information. Such forward looking information reflects management’s current beliefs and is based on information currently available to management. Forward looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of whether or not or the times at, or by which, such performance or results will be achieved. In particular, this annual report contains forward looking information pertaining to the following:

- bauxite reserve and resource quantities;
- the ultimate recoverability of reserves;
- future production levels;
- the amount, nature and timing of capital expenditures;
- the timing of refinery construction and mine start up;
- expectations regarding the negotiation of contractual rights;
- expectations regarding the financing of the Project (as defined herein) and the sources of financing;
- prices for alumina and aluminium;
- operating and other costs;
- treatment under the fiscal terms of the “tax exhibit” to the Basic Agreement (as defined herein) and the negotiation and terms of agreements relating to the Corporation’s access to and use of certain infrastructure required for the development and operation of the Project; and
- business strategies and plans of management.

A number of factors could cause actual results to differ materially from the results discussed in the forward looking information, including, but not limited to: the political and economic risks of investing in a developing country; the Corporation may not be able to secure sufficient financing; construction may be affected by cost overruns, delays, labour shortages and other construction risks; the Corporation’s dependence on a single mining property; the possible forfeiture of the Mining Concession (as defined herein) in certain circumstances; volatility of alumina and aluminium prices; operational risks such as access to infrastructure and skilled labour; the cost of resettlement of affected populations; the volatility of prices of raw materials; and all other factors discussed under the heading “Risk Factors” in the Corporation’s management’s discussion and analysis dated November 8, 2005, available on SEDAR, and the Corporation’s Annual Information Form to be filed on SEDAR on or before March 31, 2006. Although the forward looking information contained in this annual report is based upon what management of the Corporation believes are reasonable assumptions, Global Alumina cannot assure investors that actual results will be consistent with this forward looking information. If the assumptions underlying forward looking information prove incorrect or if more of the risks or uncertainties materialize, actual results may vary materially from those described in this annual report as intended, planned, anticipated, believed, estimated or expected. This forward looking information is made as of the date of the applicable components hereof and Global Alumina assumes no obligation to update or revise it to reflect new events or circumstances.

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## CHAIRMAN'S LETTER

Fellow Shareholders,

I am pleased to report to you on Global Alumina's activities and financial results for the year ended December 31, 2005 and to discuss our view of the year ahead. I first want to express, however, on behalf of your Board of Directors, management team and employees, our sincere gratitude for your continued investment in and support of Global Alumina over the past year.

Global Alumina's ultimate goal is to become one of the world's leading producers and suppliers to the aluminium industry of high quality, metallurgical grade alumina. We are pursuing this goal through the development, construction and operation of what will be the world's largest green-field alumina refinery ever constructed. The refinery will be located in the Republic of Guinea, a West African country that is home to approximately one-third of the world's economically recoverable bauxite. Bauxite is the primary feedstock from which alumina is produced. When completed, Global Alumina's three million tonne per year alumina refinery is expected to produce over 4% of the world's alumina (ranking it immediately among the top ten alumina producers), and is expected to be among the lowest cash operating cost producers in the world.

An industrial development of this scale in such an undeveloped part of the world is highly complex. Global Alumina must design, finance and build a broad array of infrastructure to support the refinery itself, including road and rail extensions, new electric and thermal energy supply, port facilities including loading/unloading and commodity storage facilities, water supply and water treatment facilities and telecommunication capabilities. Global Alumina must even design and build an entirely new community for its employees and their families. Each of these ancillary elements is itself a significant undertaking, bringing each day new and complex challenges which need to be studied, understood and quickly overcome.

To accomplish our goal, we have assembled one of the most impressive teams of experts – engineers, planners, scientists, sociologists, operators, lawyers and financiers – from around the world who share our common goal of turning this concept into reality. They have come from many different countries, from some of the largest companies in the aluminium industry, from academia, from government and even from the comfort of retirement to share the excitement of Global Alumina's rapid development. I wish that each of you could have the opportunity to spend a day or two together with our team and witness for yourself the knowledge, the skills, the drive and determination, the excitement as well as the shared sense of history-in-the-making that permeates the entire Global Alumina team.

But now it is time to reflect upon Global Alumina's achievements, challenges and potential as we transition this year from our advanced stage of development into full scale construction.

Global Alumina has only a few things it needs to do very well to succeed. First, Global Alumina must plan and design, and then efficiently execute the construction and reliable operation of the refinery and supporting infrastructure. Second, Global Alumina must secure sufficient debt and equity capital to finance the construction of the refinery and infrastructure. Third, and finally, Global Alumina must be able to sell the alumina to generate sufficient revenues to repay debt and earn an attractive return on equity. It is my intent in the paragraphs below to give you an honest assessment of Global Alumina's achievements and challenges in each of these areas:

- The engineering design of the refinery and the supporting infrastructure has been proceeding satisfactorily. The process design has been finalized and the overall refinery engineering is well advanced. The supporting infrastructure is also quite advanced and is actually completed in many areas. Although we have encountered technical obstacles throughout the year, these are to be expected in a project of this size and satisfactory solutions have been found in every case. Our bauxite exploration and assessment has confirmed that there are significant quantities of high quality bauxite in close proximity to the refinery and its planned expansion.

Throughout the past year, Global Alumina has been increasing its level of investment in the construction of key infrastructure. The land reclamation work for our port terminal at Kamsar has proceeded essentially on-time and within budget. The approximately \$22 million contract with Dredging International will be completed in March 2006. The construction of new roads to the refinery, with branches to the quarry and to the proposed new town, has likewise proceeded within schedule and budget. Global Alumina is currently opening a quarry and assembling a batch plant to enable concrete production for full scale construction. All construction related critical path items and the necessary operations' planning, recruiting and training requirements are being addressed to maintain the current schedule for an early 2009 production of alumina.

The biggest challenge to date, however, has been with the negotiation of the engineering, procurement and construction (“EPC”) contracts with the consortium of Technip, Consolidated Contractors International Company (“CCIC”) and Chicago Bridge & Iron (“CB&I”). Global construction activity is unusually intense at the moment, driven by an unprecedented increase in natural resource and mining sector investment and an unusual occurrence of multiple one-time events such as tsunami reconstruction, Iraq reconstruction, recovery efforts from the impacts to the Caribbean and Gulf Coasts from the intense 2005 hurricane season and the major earthquake in Pakistan. Materials are scarce, construction equipment is scarcer and construction management is in short supply, making it difficult for our contractors to secure competitive quotes with fixed delivery dates for equipment and services. As a result, prices have risen and schedules have been stretched resulting in a significant increase in the construction costs relating to the project.

Our biggest challenge for 2006 will be our continuing effort to find ways to reduce capital costs and accelerate the construction schedule. In addition to on-going value engineering, Global Alumina is exploring ways to reapportion risk in the contracts as a way to mitigate rising capital costs. While I am confident that Global Alumina will be successful in optimizing construction plans for the project, it is now expected that total capital costs for the project will be in the range of \$2.65 to \$2.95 billion dollars. It is our intent to finalize a construction plan by mid-2006. In the interim, we have been funding critical construction activities to maintain an early 2009 start-up schedule.

- Global Alumina was very successful in 2005 in raising the capital necessary to carry on the design and preliminary construction of the project. Global Alumina closed on equity investments totaling \$120 million in 2005 and has executed conditional subscription agreements covering an additional estimated \$180 million of equity and \$50 million of convertible debt. Together with warrants exercised earlier this year, the total capital raised by Global Alumina to date is approximately \$244 million. Though we are disappointed with Global Alumina’s share price performance in 2005, it should be noted that the \$120 million of equity raised in 2005 was privately placed and priced at approximately 30% to 50% premiums to the then current price. Global Alumina is currently evaluating its various options for raising the remaining equity and is confident of its ability to do so as needed by the project’s requirements.

Global Alumina’s work on its debt financing is proceeding apace with its project structuring. We are in discussion with a group of core prospective lenders and are working toward our goal to close on approximately \$1.8 billion in loans by year-end. The lender group has retained common counsel and independent engineering, environmental, alumina market, financial and insurance advisors which are assisting with their due diligence process. The lenders are predominantly government export credit agencies and bi-lateral and multi-lateral development agencies which have shown keen interest in the successful development of Guinea’s alumina refining industry. Though we have much work yet to complete to satisfy this lender group, we are confident in their motivation and our ability to navigate the process to a successful closing.

- The alumina market outlook continues to be exciting. The significant alumina production deficit experienced throughout 2005 is expected to become even tighter for 2006. In 2005, Global Alumina placed 40% of its production under a 20-year contract with Dubai Aluminium Company Limited and in January of this year placed an additional 420,000 tonnes annually under a 20-year contract with Glencore International AG. Global Alumina has received expressions of interest from various parties for additional alumina exceeding the production capacity of its initial refinery and proposed 50% future expansion. Alumina spot prices have increased from previously unprecedented highs of \$400/tonne at the beginning of 2005 to over \$600/tonne today. Likewise, the price of aluminium to which our alumina contract prices are directly linked has rocketed from below \$1,700/tonne in 2005 to a current price near \$2,500/tonne. Through its alumina marketing efforts during this high price environment, Global Alumina will seek to recognize the potentially significant increase in expected revenue that could offset the impact of rising construction costs.

Global Alumina is confident of selling 100% of its alumina production. Our opportunity and challenge, however, is to develop customer relationships strategically with those parties which add value in other ways to the success of the project beyond just a high price.

Not to be lost amongst all of the technical and financial developments is the historic impact Global Alumina is having on the Republic of Guinea. Global Alumina’s world class refinery will be the first to be built for decades in this country which possesses one-third of the world’s highest quality recoverable bauxite. We fully expect Guinea to become the aluminium industry’s preferred source for its incremental alumina requirements for decades to come

through Global Alumina's expanding operations and new refineries that may be developed. With Global Alumina leading the way, it appears that the future of this West African nation has brightened considerably.

In summary, we continue to be extremely optimistic with respect to the future of Global Alumina. There is a developing need in the market for Global Alumina's refinery. We have an excellent design, superb bauxite reserves, skilled management, an attractive market for our product and strong relationships with the government of Guinea and local leaders. We look forward in the coming years to delivering a world class refinery built with the highest environmental and social standards in mind and ultimately producing the attractive returns our shareholders expect. We look forward to making you proud to be a shareholder of Global Alumina!

Thank you,

(Signed) BRUCE WROBEL  
Chairman and Chief Executive Officer

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Global Alumina Corporation (the "Company") were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 2 to the consolidated financial statements.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

PricewaterhouseCoopers LLP, Chartered Accountants, the Company's independent auditors, conduct an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. As well, they make an assessment of the accounting principles used and significant estimates made by management and they evaluate the overall financial statement presentation.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The members of the Audit Committee are not officers of the Company. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee also reviews the Annual Report to ensure that the financial information reported therein is consistent with the information presented in the financial statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(Signed) MICHAEL J. CELLA  
Chief Financial Officer

March 21, 2006

## AUDITORS' REPORT

To the Shareholders of  
GLOBAL ALUMINA CORPORATION

We have audited the consolidated balance sheet of GLOBAL ALUMINA CORPORATION as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants  
Toronto, Ontario, Canada  
February 24, 2006

**CONSOLIDATED FINANCIAL STATEMENTS**  
**GLOBAL ALUMINA CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In United States Dollars)

|  | As at December 31,   |                     |
|--|----------------------|---------------------|
|  | 2005                 | 2004                |
| <b>ASSETS</b>  |                      |                     |
| <b>Current assets</b>                                |                      |                     |
| Cash .....   | \$ 71,413,258        | \$51,554,031        |
| Restricted cash (note 9) .....                       | 15,316,955           | —                   |
| Prepays .....  | 2,131,217            | 49,000              |
| Due from affiliates and other assets .....           | 35,524               | 126,239             |
|  | 88,896,954           | 51,729,270          |
| <b>Engineering contracts</b> (note 3) .....          | —                    | 593,805             |
| <b>Construction-in-progress</b> (note 4) .....       | 75,836,168           | 6,399,812           |
| <b>Property, plant and equipment</b> (note 4) .....  | 8,644,094            | 33,898              |
|  | <u>\$173,377,216</u> | <u>\$58,756,785</u> |
| <b>LIABILITIES</b>                                   |                      |                     |
| <b>Current liabilities</b>                           |                      |                     |
| Accounts payable and accrued liabilities .....       | \$ 15,426,923        | \$ 4,132,350        |
| <b>Shareholders' Equity</b>                          |                      |                     |
| <b>Capital stock and other equity</b> (note 6) ..... | 201,360,887          | 81,477,424          |
| <b>Contributed surplus</b> .....                     | 982,167              | 271,484             |
| <b>Accumulated deficit</b> .....                     | (44,392,761)         | (27,124,473)        |
|  | 157,950,293          | 54,624,435          |
|  | <u>\$173,377,216</u> | <u>\$58,756,785</u> |

Approved by the Board of Directors

(Signed) BRUCE J. WROBEL  
Director

(Signed) MICHAEL J. CELLA  
Director

**GLOBAL ALUMINA CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(In United States Dollars)

|  | <u>Years ended December 31,</u> |                       | <u>Cumulative period from</u>  |
|--|---------------------------------|-----------------------|--------------------------------|
|  | <u>2005</u>                     | <u>2004</u>           | <u>July 21, 1999</u>           |
|  |                                 |                       | <u>(date of incorporation)</u> |
|  |                                 |                       | <u>to December 31,</u>         |
|  |                                 |                       | <u>2005</u>                    |
| <b>Other income</b>                                    |                                 |                       |                                |
| Interest .....   | \$ 759,923                      | \$ 406,773            | \$ 1,166,696                   |
| Other .....  | <u>297,497</u>                  | <u>33,900</u>         | <u>987,728</u>                 |
|  | <u>1,057,420</u>                | <u>440,673</u>        | <u>2,154,424</u>               |
| <b>Expenses</b>  |                                 |                       |                                |
| Engineering .....                                      | 25,178                          | 9,340,006             | 15,041,729                     |
| Professional fees .....                                | 10,087,779                      | 5,426,554             | 18,793,439                     |
| General and administrative .....                       | 6,685,958                       | 2,256,951             | 10,675,506                     |
| Amortization .....                                     | <u>1,526,793</u>                | <u>491,822</u>        | <u>2,018,615</u>               |
|  | <u>18,325,708</u>               | <u>17,515,333</u>     | <u>46,529,289</u>              |
| <b>Loss for the year</b> .....                         | <u>\$(17,268,288)</u>           | <u>\$(17,074,660)</u> | <u>\$(44,374,865)</u>          |
| <b>Basic and diluted loss per share</b> (note 8) ..... | <u>\$ (0.14)</u>                | <u>\$ (0.18)</u>      | <u>\$ (0.29)</u>               |
| <b>Deficit – Beginning of year</b> .....               | \$(27,124,473)                  | \$(10,031,917)        |                                |
| <b>Reverse takeover costs</b> .....                    | —                               | (17,896)              |                                |
| <b>Loss for the year</b> .....                         | \$(17,268,288)                  | \$(17,074,660)        |                                |
| <b>Deficit – End of year</b> .....                     | <u>\$(44,392,761)</u>           | <u>\$(27,124,473)</u> |                                |

**GLOBAL ALUMINA CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In United States Dollars)

|   | <u>Years ended December 31,</u> |                      | <u>Cumulative</u>   |
|---|---------------------------------|----------------------|---|
|   | <u>2005</u>                     | <u>2004</u>          | <u>period from</u><br><u>July 21, 1999</u><br><u>(date of</u><br><u>incorporation)</u><br><u>to December 31,</u><br><u>2005</u> |
| <b>Cash provided by (used in)</b>                                 |                                 |                      |   |
| <b>Operating activities</b>                                       |                                 |                      |   |
| Loss for the year . . . . .                                       | \$(17,268,288)                  | \$(17,074,660)       | \$(44,374,865)  |
| Stock options (note 6) . . . . .                                  | 710,682                         | 271,483              | 1,232,165   |
| Common stock issued for services . . . . .                        | —                               | —                    | 50,000  |
| Amortization . . . . .  | 1,526,793                       | 491,822              | 2,018,615   |
|   | <u>(15,030,813)</u>             | <u>(16,311,355)</u>  | <u>(41,074,085)</u>   |
| <b>Changes in non-cash items relating to operating activities</b> |                                 |                      |   |
| Prepays . . . . .   | (2,077,390)                     | (49,000)             | (2,126,390)   |
| Due from affiliates and other assets . . . . .                    | 90,715                          | (218,178)            | (127,463)   |
| Accounts payable and accrued liabilities . . . . .                | 11,294,573                      | 2,325,432            | 15,372,553  |
| Accrued interest . . . . .  | —                               | (5,000)              | —   |
| <b>Cash used in operating activities</b> . . . . .                | <u>(5,722,915)</u>              | <u>(14,258,101)</u>  | <u>(27,955,385)</u>   |
| <b>Investing activities</b>                                       |                                 |                      |   |
| Acquisition of Aluminpro (note 3) . . . . .                       | —                               | (576,684)            | (576,684)   |
| Additions to other assets . . . . .                               | (9,543,184)                     | (39,879)             | (9,583,063)   |
| Additions to construction-in-progress . . . . .                   | (69,436,356)                    | (6,399,812)          | (75,836,168)  |
| Restricted cash . . . . .   | (15,316,955)                    | —                    | (15,316,955)  |
| Payments to affiliates . . . . .                                  | —                               | —                    | (71,099)  |
| <b>Cash used in investing activities</b> . . . . .                | <u>(94,296,495)</u>             | <u>(7,016,375)</u>   | <u>(101,383,969)</u>  |
| <b>Financing activities</b>                                       |                                 |                      |   |
| Proceeds from issuances of common shares . . . . .                | 119,883,464                     | 73,069,924           | 200,556,888   |
| Deferred financing charges . . . . .                              | (4,827)                         | —                    | (4,827)   |
| Collection of stock subscription receivable . . . . .             | —                               | 4,000                | 4,000   |
| Repayment of note payable . . . . .                               | —                               | (300,000)            | —   |
| Proceeds from affiliates . . . . .                                | —                               | —                    | 196,551   |
| <b>Cash provided by financing activities</b> . . . . .            | <u>119,878,637</u>              | <u>72,773,924</u>    | <u>200,752,612</u>  |
| <b>Net increase in cash</b> . . . . .                             | 19,859,227                      | 51,499,448           | 71,413,258  |
| <b>Cash – Beginning of year</b> . . . . .                         | 51,554,031                      | 54,583               | —   |
| <b>Cash – End of year</b> . . . . .                               | <u>\$ 71,413,258</u>            | <u>\$ 51,554,031</u> | <u>\$ 71,413,258</u>  |

**GLOBAL ALUMINA CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(In United States Dollars)

**1. Nature of operations**

Global Alumina Corporation (Global Alumina or the company), then known as Global Alumina Products Corporation (GAPCO), filed articles of continuance under the New Brunswick Business Corporations Act on May 26, 2004. GAPCO completed a reverse takeover transaction with PL Internet Inc. (PLI) on May 25, 2004 and subsequently changed its name to Global Alumina. Global Alumina's business is the development of an alumina refinery located in the bauxite mining region of the Republic of Guinea (Guinea). Global Alumina intends to accomplish this initiative through its wholly owned subsidiary, Guinea Alumina Corporation, Ltd. (formerly Boke Alumina Corporation, Ltd.), a British Virgin Islands company, and its Guinean subsidiary, Guinea Alumina Corporation, S.A. (formerly Boke Alumina Corporation S.A.R.L.). At the annual general meeting held on April 28, 2005, the company's shareholders approved a change to the company's name from Global Alumina Products Corporation to Global Alumina Corporation.

The company is solely focused on the design, finance, construction and operation of an alumina refinery, and associated infrastructure improvements. In 2001, the company discontinued development of an aluminum smelter project for which it had incurred cumulative directly attributable expenditures of \$1,630,000. The balance of the cumulative expenses to date relates to the alumina refinery project.

On October 15, 2004, the company and the Ministry of Mines and Geology (Ministry) of the Republic of Guinea signed an agreement (the basic agreement) for the construction and operation of an alumina plant refinery at Sangaredi. The basic agreement is a comprehensive investment and concession agreement that grants the company exclusive rights to build and operate an alumina refinery.

On May 17, 2005, the company and the Ministry signed an amendment to the basic agreement that modified certain terms. On May 19, 2005, the Republic of Guinea's national assembly unanimously ratified the amended basic agreement. On July 4, 2005, the president of the Republic of Guinea signed a decree adopting the amended basic agreement into law.

The company is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. The risks include, but are not limited to, dependence on key individuals, successful development and the ability to secure adequate financing to meet the minimum capital required to successfully complete the project. The company is directing substantially all of its efforts to various set-up activities, including engineering, development, raising capital and preliminary construction activities.

**2. Summary of significant accounting policies**

**Basis of presentation**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

**Principles of consolidation**

The consolidated financial statements include the accounts of Global Alumina Corporation and its direct and indirect wholly owned subsidiaries, Aluminpro Aluminium Industry Professionals Inc., Global Alumina Services Company, Global Alumina International, Ltd., Guinea Alumina Corporation, Ltd. and Guinea Alumina Corporation, S.A. All material intercompany transactions and balances have been eliminated.

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

**Income taxes**

The company uses the asset and liability method of accounting for income taxes, under which future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using income tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

Future income tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is more likely than not.

**Foreign currency translation**

*Reporting currency*

The consolidated financial statements are presented in U.S. dollars (the reporting currency).

# GLOBAL ALUMINA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In United States Dollars)

The financial statements of the company's fully integrated subsidiaries are translated into U.S. dollars using the temporal method. Monetary items are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at historical exchange rates, with corresponding amortization translated at the same exchange rates as the assets to which they relate. Revenues and expenses are translated into U.S. dollars at the rates of exchange prevailing when the underlying transactions occurred. Foreign exchange gains or losses on translation are recognized in the consolidated statements of operations.

### *Foreign currency transactions and balances*

The U.S. dollar is the functional currency of the company. Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of operations.

### **Basic and diluted earnings per share**

Basic earnings/(loss) per share is computed by dividing earnings/(loss) for the year by the weighted number of common shares outstanding during the year. Diluted earnings/(loss) per share is computed using the treasury stock method whereby the weighted average number of common shares used in the basic earnings/(loss) per share calculation is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued at the beginning of the year. Potential common shares represent the common shares issuable upon the exercise of stock options or warrants. Potential common shares are excluded from the calculation if their effect is antidilutive.

### **Development costs**

The company follows the provisions of Accounting Guideline No. 11 (AcG-11), "Enterprises in the Development Stage," of The Canadian Institute of Chartered Accountants (CICA) Handbook. Development costs are capitalized only if they meet the following criteria: the product or process is clearly defined and costs attributable thereto can be defined; the technical feasibility of the process has been established; management of the company has indicated its intention to produce and market the process; the future market has been clearly defined; and adequate resources exist, or are expected to be available, to complete the project. As at December 31, 2005, the company has determined that it did not meet all of these criteria. Accordingly, all development costs have been expensed.

### **Property, plant and equipment**

Property, plant and equipment comprise construction-in-progress, leasehold improvements, motor vehicles and equipment and are recorded at carrying values less amortization. The company's policy is to recognize 50% of the amortization charge in the year of addition to construction equipment, motor vehicles and equipment. Leasehold improvements are amortized on a straight-line basis over the life of the related lease. The other capital assets are amortized on a straight-line basis over their estimated useful lives, as follows:

|                              |     |
|------------------------------|-----|
| Motor vehicles .....         | 30% |
| Construction equipment ..... | 20% |
| Equipment .....              | 30% |

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable in accordance with CICA Handbook Section 3063, "Impairment of Long-lived Assets." Under that standard, an impairment loss is recognized when the carrying amount of an asset exceeds the projected undiscounted future net cash flows expected from its use and disposal. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is determined by discounted cash flows when quoted market prices are not available. Future amortization will be charged based on the post-impairment carrying value.

Beginning October 1, 2004, in accordance with CICA Handbook Section 3061, "Property, Plant and Equipment," the company has commenced capitalization of all costs directly related to the construction of its alumina refinery plant. Construction-in-progress is recorded at cost. Amortization will commence when the alumina refinery is available for commercial production.

The company will recognize a partial or full impairment to construction-in-progress whenever events or changes in circumstances indicate that the carrying amount exceeds fair value. This would occur when one or more of the following conditions are identified:

- (a) a change in the extent to which the project asset is expected to be used;
- (b) a change in the manner in which the project asset is expected to be used;
- (c) a construction interruption for an extended period of time;
- (d) physical damage; and
- (e) a change in law or the environment which significantly affects completion.

**GLOBAL ALUMINA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(In United States Dollars)

**Engineering contracts**

Engineering contracts attributable to the Aluminpro acquisition were amortized over a 12-month period commencing on July 19, 2004, the effective date of the transaction (note 3).

**Stock option plans**

The fair value of stock options granted is recognized as compensation expense on a straight-line basis over the applicable stock option vesting period and included in general and administrative expenses in the consolidated statements of operations and as contributed surplus within capital stock on the consolidated balance sheets. The consideration received on the exercise of stock options is credited to share capital at the time of exercise.

**3. Business acquisition**

On July 19, 2004, the company acquired all of the outstanding share capital of Aluminpro Aluminum Industry Professionals Inc. (Aluminpro), a limited liability company formed in 2000 to provide marketing and administrative services for its membership, which is made up of senior professionals in the aluminum industry.

The purchase price of \$1,000,000 consisted of \$500,000 in the form of a cash payment and the balance consisted of 500,000 units of Global Alumina valued at \$1 each (Global Alumina units). Each Global Alumina unit consists of one common share of Global Alumina (a Global Alumina common share) and one-half of one warrant of Global Alumina (each whole warrant a Global Alumina warrant). Each Global Alumina warrant entitles the holder thereof to purchase an additional Global Alumina common share at a price of \$1.50 per share until July 19, 2006. The consolidated statement of cash flows for the year ended December 31, 2004 reflects cash outflows of \$500,000 as part of the cost of the Aluminpro acquisition.

Concurrently with the transaction, the company entered into a consulting services agreement with the owner members of Aluminpro for services in connection with the alumina refinery project. The consulting agreement was initially for a period of one year and is automatically renewed for 90-day periods (renewal term) unless terminated by either party at least 30 days prior to the end of the renewal term. The total cost of purchase, including transaction costs, amounted to \$1,095,000 and has been allocated as follows:

|  |                    |
|--|--------------------|
| Cash .....                                   | \$ 18,316          |
| Accounts receivable and other assets .....   | 33,514             |
| Accounts payable and other liabilities ..... | (36,475)           |
| Engineering contracts .....                  | <u>1,079,645</u>   |
|  | <u>\$1,095,000</u> |

Engineering contracts have been fully amortized as at December 31, 2005.

**4. Property, plant and equipment**

|                                | <u>2005</u>         |                                     |                     |
|--------------------------------|---------------------|-------------------------------------|---------------------|
|                                | <u>Cost</u>         | <u>Accumulated<br/>amortization</u> | <u>Net</u>          |
| Motor vehicles .....           | \$ 276,846          | \$ 50,287                           | \$ 226,559          |
| Construction equipment .....   | 8,166,265           | 816,627                             | 7,349,638           |
| Equipment .....                | 299,306             | 48,376                              | 250,930             |
| Leasehold improvement .....    | 840,647             | 23,680                              | 816,967             |
| Construction-in-progress ..... | <u>75,836,168</u>   | <u>—</u>                            | <u>75,836,168</u>   |
|                                | <u>\$85,419,232</u> | <u>\$938,970</u>                    | <u>\$84,480,262</u> |
|                                |                     |                                     |                     |
|                                | <u>2004</u>         |                                     |                     |
|                                | <u>Cost</u>         | <u>Accumulated<br/>amortization</u> | <u>Net</u>          |
| Motor vehicles .....           | \$ 29,200           | \$4,380                             | \$ 24,820           |
| Construction equipment .....   | —                   | —                                   | —                   |
| Equipment .....                | 10,680              | 1,602                               | 9,078               |
| Leasehold improvement .....    | —                   | —                                   | —                   |
| Construction-in-progress ..... | <u>6,399,812</u>    | <u>—</u>                            | <u>6,399,812</u>    |
|                                | <u>\$6,439,692</u>  | <u>\$5,982</u>                      | <u>\$6,433,710</u>  |

## GLOBAL ALUMINA CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In United States Dollars)

#### 5. PL Internet Inc. merger

On March 12, 2004, GAPCO entered into a definitive agreement of arrangement (the arrangement) with PLI, an Ontario reporting issuer, under which it proposed that pursuant to a court-approved plan of arrangement in the British Virgin Islands, GAPCO shareholders would exchange their shares of GAPCO for shares of PLI (the share exchange), resulting in GAPCO becoming a wholly owned subsidiary of PLI. The share exchange was completed on May 25, 2004. For accounting purposes, the transaction is considered a reverse takeover whereby GAPCO is considered the acquiring company as the shareholders of GAPCO acquired more than 50% of the issued and outstanding shares of PLI. Prior to the share exchange, PLI filed amended articles of incorporation (the amendment) to consolidate its outstanding share capital and to change its name to Global Alumina Products Corporation. Following the share exchange, on May 26, 2004, Global Alumina changed its jurisdiction of incorporation from Ontario to New Brunswick by filing articles of continuance under the New Brunswick Business Corporations Act. Global Alumina then continued as a public company and a reporting issuer in Ontario. Global Alumina listed its common shares on the TSX Venture Exchange effective June 15, 2004. The transaction resulted in the company's assumption of PLI's net liabilities in the amount of \$121,915. Transaction costs incurred by PLI relating to the share exchange have been recorded as a charge to the retained earnings of the company to the extent of cash in PLI in the amount \$16,502, with the balance recorded as a period expense in the company's statement of operations and deficit for the three months ended June 30, 2004. The total transaction costs incurred by the company with respect to the share exchange amounted to approximately \$635,000 and have been included in professional fees in the company's statement of operations and deficit. The effects of the PLI merger on the company's share capital are as follows:

|  | <u>Number of<br/>common shares</u> | <u>Amount<br/>\$</u> | <u>Total<br/>\$</u> |
|--|------------------------------------|----------------------|---------------------|
| PLI share capital balance – January 1, 2004 .....          | 7,249,410                          | 255,227              | 255,227             |
| Issued for cash .....                                      | 600,000                            | 30,660               | 30,660              |
| PLI share capital balance – March 31, 2004 .....           | 7,849,410                          | 285,887              | 285,887             |
| Stock consolidation <sup>(a)</sup> .....                   | (2,849,787)                        | —                    | —                   |
| PLI share capital transfer to deficit <sup>(b)</sup> ..... | —                                  | (285,887)            | (285,887)           |
| Deemed issuance by the company .....                       | 4,999,623                          | —                    | —                   |

(a) The issued and outstanding shares of PLI were consolidated from 7,849,410 to 4,999,623 shares.

(b) PLI's share capital was eliminated against the company's retained earnings to reflect the continuity of the company's share capital.

#### 6. Capital stock and other equity

Common shares, no par value, authorized unlimited number of shares, issued and outstanding 177,682,746 and 118,244,623 shares as at December 31, 2005 and 2004, respectively.

|  | <u>Number of<br/>common shares</u> | <u>Amount<br/>\$</u> | <u>Number of<br/>warrants</u> | <u>Amount<br/>\$</u> | <u>Total<br/>\$</u> |
|--|------------------------------------|----------------------|-------------------------------|----------------------|---------------------|
| Balance – January 1, 2003 and 2004 .....                 | 47,160,000                         | 7,907,500            | 4,000,000                     | —                    | 7,907,500           |
| Shares issued in private placements <sup>(a)</sup> ..... | 65,385,000                         | 68,793,880           | 29,000,000                    | 3,976,044            | 72,769,924          |
| PLI share exchange (note 6) .....                        | 4,999,623                          | —                    | —                             | —                    | —                   |
| Aluminpro acquisition (note 3) .....                     | 500,000                            | 455,600              | 250,000                       | 44,400               | 500,000             |
| Warrants exercised during the year .....                 | 200,000                            | 331,806              | (200,000)                     | (31,806)             | 300,000             |
| Balance – December 31, 2004 .....                        | 118,244,623                        | 77,488,786           | 33,050,000                    | 3,988,638            | 81,477,424          |
| Shares issued in private placements <sup>(b)</sup> ..... | 57,222,222                         | 117,150,437          | —                             | —                    | 117,150,437         |
| Warrants exercised during the year <sup>(c)</sup> .....  | 2,215,901                          | 2,897,515            | (2,215,901)                   | (164,489)            | 2,733,026           |
| Balance – December 31, 2005 .....                        | <u>177,682,746</u>                 | <u>197,536,738</u>   | <u>30,834,099</u>             | <u>3,824,149</u>     | <u>201,360,887</u>  |

(a) Private placements – 2004

On February 3, 2004, GAPCO closed a private placement offering, which raised gross proceeds of \$50 million before commissions, fees and related transaction costs of approximately \$5 million through the issuance of 50,000,000 units at \$1.00 per unit. Each unit consisted of one common share of the company and one-half of one warrant. Each whole warrant may be exercised to acquire one common share of the company at an exercise price of \$1.50 per common share for a period of 24 months after the closing date (February 3, 2006). The proceeds of the offering will be used to complete the detailed design phase of the alumina refinery project, including engineering, preliminary construction and other work and working capital in preparation for the offering and sale of additional equity, construction loan closing and commencement of construction of the project. The net proceeds from the offering amounted to \$44,775,614 after deducting agents' fees and related expenses of \$4,724,386 and non-cash consideration of \$500,000. The net proceeds of \$44,775,614 were allocated between shares and warrants based on their respective fair values using the Black-Scholes option pricing model. The principal assumptions used in applying the Black-Scholes option pricing model were as follows:

|                               |         |
|-------------------------------|---------|
| Risk-free interest rate ..... | 3.5%    |
| Dividend yield .....          | n/a     |
| Volatility factor .....       | 55%     |
| Expected life .....           | 2 years |

## GLOBAL ALUMINA CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) (In United States Dollars)

On December 23, 2004, the company closed a private placement offering, which raised gross proceeds of \$30,000,750 before commissions, fees and related transaction costs of approximately \$2,006,440 through the issuance of 15,385,000 common shares at \$1.95 per common share. The proceeds of the offering will be used to fund early stage construction of the alumina refinery project. The net proceeds from the offering amounted to \$27,994,310 after deducting agents' fees and other related expenses.

(b) Private placements – 2005

On September 30, 2005, the company closed a private placement to Dubai Aluminium Company Limited (DUBAL) of 10,000,000 common shares at \$2.00 per unit for gross proceeds of \$20 million. The offering expenses for the DUBAL private placement amounted to \$120,435.

On August 18, 2005, the company entered into an agreement with Emirates International Investment Company LLC (EIIC) as follows:

- (i) Purchase 25,000,000 common shares for cash proceeds of \$50 million. On October 20, 2005, the company closed a private placement with EIIC of 25,000,000 common shares at \$2.00 per share for gross proceeds of \$50 million. The offering expenses for the EIIC private placement amounted to \$2,627,575.
- (ii) Purchase a \$50 million principal amount convertible debenture of the company, bearing interest at the rate of 10% per annum, maturing five years after the date of purchase. EIIC will be entitled to request the company to convert the debenture into common shares of the company at \$2.80 per share if certain events, as specified in the agreement, occur. As at December 31, 2005, the debenture has not been issued.

On December 29, 2005, the company closed a private placement to IDB Infrastructure Fund L.P. (IDBIF), a limited partnership established in the Kingdom of Bahrain, of 22,222,222 common shares at \$2.25 per share for gross proceeds of \$50 million. The offering expenses for the IDBIF private placement amounted to \$101,541.

- (c) A total of 2,215,901 warrants were exercised during 2005 at exercise prices ranging from \$1.00 to \$1.50, for net proceeds of \$2,733,026. Details of the 30,834,099 share purchase warrants issued and outstanding as at December 31, 2005 are as follows:

| <u>Number of Shares</u><br><u>Exercisable</u> | <u>Expiry Date</u> | <u>Exercise Price</u> |
|---|--------------------|-----------------------|
| 23,765,749                                    | February 3, 2006   | \$1.50                |
| 250,000                                       | July 19, 2006      | \$1.50                |
| 4,000,000                                     | December 31, 2006  | \$1.00                |
| 2,818,350                                     | February 3, 2008   | \$1.00                |

Subsequent to year-end, 22,136,899 warrants with an expiry date of February 3, 2006 were exercised for cash proceeds of \$33,205,349. The remaining 1,628,850 warrants expired unexercised.

#### Stock options

In May 2004, the company adopted a stock option plan (the plan), which provides employees, directors, officers and consultants of the company with the opportunity to acquire common shares of the company through the exercise of stock options. Ten million common shares have been reserved for issuance under the plan. Stock options granted under the plan are limited to a maximum term of ten years. During 2005, the following awards were made. On March 10, 2005, a total of 752,000 stock options (net of cancellations) were granted with an exercise price of \$2.50, a vesting period over three years and a maximum term of five years. On July 25, 2005, a total of 483,500 stock options were granted with an exercise price of \$1.40, a vesting period over three years and a maximum term of five years. On November 8, 2005, a total of 75,000 stock options were granted with an exercise price of \$1.57, a vesting period over three years and a maximum term of five years. During 2004, a total of 1,035,000 stock options were granted.

#### Stock-based compensation

The company accounts for stock options granted under its employee stock option plan using the fair value method of accounting. Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted during the year ended December 31, 2005 was estimated to be \$1,069,212 (2004 – \$587,347). Expenses in the amount of \$710,682 and \$271,484 have been recognized for the years ended December 31, 2005 and 2004, respectively. No stock options have been exercised as of December 31, 2005 and the unvested unamortized fair value of stock options granted amounts to \$674,391 (2004 – \$315,862).

The Black-Scholes model was developed for use in estimating the fair value of traded stock options that have no vesting restrictions. In addition, such models require the use of subjective assumptions, including expected share price volatility. The principal assumptions used in applying the Black-Scholes option pricing model for the awards for the year ended December 31, 2005 were as follows:

|                         |         |
|-------------------------|---------|
| Risk-free interest rate | 3.5%    |
| Dividend yield          | n/a     |
| Volatility factor       | 55%     |
| Expected life           | 3 years |

**GLOBAL ALUMINA CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(In United States Dollars)

A summary of the status of the company's plan is as follows:

|                                       | <u>Number of<br/>stock options</u> | <u>Weighted average<br/>exercise price</u> |
|---------------------------------------|------------------------------------|--|
| Outstanding – January 1, 2004 .....   | —                                  | \$ —                                       |
| Granted .....                         | 1,035,000                          | 1.50                                       |
| Outstanding – December 31, 2004 ..... | 1,035,000                          | 1.50                                       |
| Granted .....                         | 1,380,500                          | 2.04                                       |
| Cancellations .....                   | (70,000)                           | (2.50)                                     |
| Outstanding – December 31, 2005 ..... | <u>2,345,500</u>                   | 1.80                                       |
| Exercisable – December 31, 2005 ..... | <u>517,500</u>                     | \$ 1.50                                    |

| <u>Range of<br/>exercise price</u> | <u>Options outstanding</u>  |  |  | <u>Options exercisable</u>  |  |  |
|------------------------------------|---|--|--|---|--|--|
|                                    | <u>Number<br/>outstanding<br/>as at<br/>December 31,<br/>2005</u> | <u>Weighted<br/>average<br/>remaining<br/>contractual<br/>life</u> | <u>Weighted<br/>average<br/>exercise price</u> | <u>Number<br/>outstanding<br/>as at<br/>December 31,<br/>2005</u> | <u>Weighted<br/>average<br/>remaining<br/>contractual<br/>life</u> | <u>Weighted<br/>average<br/>exercise price</u> |
| \$1.50 – 1.52                      | 1,035,000   | 3.4 years  | \$1.50   | 517,500   | 3.4 years  | \$1.50   |
| 2.50                               | 752,000   | 4.2 years  | 2.50   | —   | —  | —  |
| 1.40                               | 483,500   | 4.6 years  | 1.40   | —   | —  | —  |
| \$1.57                             | 75,000  | 4.8 years  | \$1.57   | —   | —  | —  |

**7. Income taxes**

The company's income tax provision (recovery) has been calculated as follows:

|  | <u>2005</u>    | <u>2004</u>    |
|--|----------------|----------------|
| Loss for the year .....  | \$(17,268,288) | \$(17,074,660) |
| Income tax (recovery) provision at combined Canadian federal<br>and provincial statutory rates ..... | (6,064,623)    | (5,915,589)    |
| Current year losses not recognized .....   | 6,260,681      | 1,353,932      |
| Permanent differences .....  | —              | 67,530         |
| Increase in valuation allowance .....  | (196,058)      | 4,494,127      |
| Provision for (recovery of) income taxes .....   | <u>—</u>       | <u>—</u>       |

The following summarizes the principal temporary differences and the related future income tax effect:

|  | <u>2005</u> | <u>2004</u> |
|--|-------------|-------------|
| Capital assets .....                       | \$4,271,000 | \$4,063,000 |
| Non-capital losses carried forward .....   | 3,049,000   | 236,000     |
| Reorganization costs .....                 | 1,382,000   | 820,000     |
| Net future income tax asset .....          | 8,702,000   | 5,119,000   |
| Valuation allowance .....                  | (8,702,000) | (5,119,000) |
| Net future income tax asset recorded ..... | <u>\$ —</u> | <u>\$ —</u> |

As at December 31, 2005, the company has Canadian non-capital losses that expire as follows:

| <u>Year of expiry</u> |             |
|-----------------------|-------------|
| 2014 .....            | \$ 936,000  |
| 2015 .....            | \$4,916,000 |

**8. Loss per share**

The computations for basic loss per share are as follows:

|  | <u>2005</u>  | <u>2004</u>  |
|--|--------------|--------------|
| Net loss for the year .....                    | (17,268,288) | (17,074,660) |
| Weighted average number of common shares ..... | 127,340,000  | 93,390,000   |
| Loss per common share .....                    | (0.14)       | (0.18)       |

In 2005 and 2004, all options and warrants were excluded from the computation of diluted loss per share because their effect was not dilutive.

**GLOBAL ALUMINA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(In United States Dollars)

**9. Commitments**

The company has entered into operating lease arrangements for its leased premises. For the year ended December 31, 2005, the total amount paid under these operating leases was \$108,724.

**Year ending December 31,**

|                  |                    |
|------------------|--------------------|
| 2006 .....       | \$ 652,344         |
| 2007 .....       | 652,344            |
| 2008 .....       | 652,344            |
| 2009 .....       | 652,344            |
| 2010 .....       | 652,344            |
| Thereafter ..... | <u>489,258</u>     |
| Total .....      | <u>\$3,750,978</u> |

The commitment amounts have not been reduced by the sublease income earned by the company, as disclosed in note 11.

Effective March 1, 2004, GAPCO appointed two financial advisers, one in connection with securing equity and the other in connection with raising limited recourse debt, for development and construction funding of the project. GAPCO agreed to pay its financial advisers an aggregate monthly retainer of \$75,000 and success fees based on an agreed upon formula. The success fees to the advisers will accrue upon receipt of commitment letters for project associated equity and debt financing and will be payable in full on the execution and delivery of the definitive financing documents. The agreement with the debt adviser will continue until the earlier of the consummation of debt financing and January 1, 2007. Effective May 27, 2005, Global Alumina terminated the agreement with the equity adviser.

On February 18, 2005, Global Alumina entered into a memorandum of understanding with Technip France S.A. (Technip) under which Technip will assume the role of engineering, procurement and construction contractor for the construction of Global Alumina's refinery in Guinea. Under the memorandum of understanding, Technip has agreed to move forward on the design and procurement of the refinery (phase one) and both parties have agreed to commence negotiations on the terms of the final contract for the construction of the refinery. Under the memorandum of understanding, it was anticipated that phase one would be completed by October 30, 2005. The company and Technip are currently in negotiations to expand the scope and extend the time period for completion of phase one. The company estimates that payments to Technip in connection with the completion of phase one will total approximately \$25 million.

On February 25, 2005, Global Alumina entered into an insurance service agreement with Willis Risk Solutions (Willis) pursuant to which Willis will procure insurance coverage, in its capacity as an insurance broker, and provide account management services in connection with the project. The agreement is effective for a period beginning as of January 1, 2005 and continuing until the completion of the project. The total fee payable to Willis under the agreement is \$785,000, excluding premiums applicable to insurance policies purchased through Willis as insurance broker.

During the year, the company entered into an off-take agreement with DUBAL (note 11) committing 40% of future annual production at a specified percentage of the three-month forward price for high-grade aluminium as quoted on the London Metal Exchange.

As at December 31, 2005, the company had a letter of credit outstanding for \$15,316,955 relating to dredging activities for construction of the port facilities in Guinea. The company is required to keep cash on hand in this amount until the letter of credit expires on April 28, 2006. Effective January 25, 2006, the letter of credit was reduced to \$6,612,200.

From time to time, the company enters into employment contracts with its senior executives that reflect standard commercial terms, including employment guarantees, in the alumina industry.

**10. Segmented information**

The company considers that it operates only in one reportable industry segment, namely, the design, finance, construction and operation of an alumina refinery, and associated infrastructure improvements. At December 31, 2005, the company's total property, plant and equipment amounted to \$84,480,262, consisting of construction-in-progress of \$75,836,168 and other assets of \$8,644,094, nearly all of which are located in the Republic of Guinea.

**11. Related party transactions**

During the year ended December 31, 2005, the company has had the following related party transactions.

The company has had an agreement to pay Karalco Resources Ltd. (Karalco) a monthly retainer for professional services regarding development activities with respect to the alumina refinery project. Karalco is controlled by a director and shareholder of Global Alumina. Compensation arrangements for Karalco's consulting services are subject to review based on the status of the project and the level of activity required of Karalco on behalf of Global Alumina. The monthly retainer payments are designed to reflect an estimated portion that is

## GLOBAL ALUMINA CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In United States Dollars)

attributable to the out-of-pocket and related administrative expenses (incidental expenses) incurred by Karalco. The company periodically reviews the terms and conditions of the arrangement with Karalco and resets the retainer to reflect such changes in estimates.

The total payments with respect to the monthly retainer, reimbursement of the incidental expenses and the incentive-based compensation in connection with the ratification of the basic agreement and promulgation of the presidential decree, for the year ended December 31, 2005 amounted to \$1,270,000 (2004 – \$585,000).

The company has an agreement with Herakles Capital Corp. (Herakles), one of its shareholders, to either pay directly or reimburse Herakles for professional services rendered by employees of, and consultants retained by, Herakles. Herakles is controlled by Bruce Wrobel, Global Alumina's chief executive officer and a shareholder of the company. All professional services rendered by employees of, and consultants retained by, Herakles have been retained at or below market rates and Herakles is reimbursed at cost. The total payments for the year ended December 31, 2005 amounted to approximately \$1,181,000 (2004 – \$543,000). Bruce Wrobel is also the chief executive officer of Sithe Global Power, LLP (Sithe Global), which has provided and continues to provide professional services to the company. Sithe Global is reimbursed at cost. The total payments for the year ended December 31, 2005 amounted to approximately \$218,000 (2004 – \$nil). Prior to September 2004, Bruce Wrobel was the chief executive officer of Sithe Energies, Inc. (Sithe Energies), which formerly provided professional services to the company. Sithe Energies was reimbursed at cost. The total payments for the years ended December 31, 2005 and 2004 amounted to approximately \$nil and \$140,000, respectively. In January 2005, when there was a change of control at Sithe Energies, the relationship with the company terminated.

The company also has an agreement to reimburse Herakles for occupancy expenses. Occupancy expenses for the year ended December 31, 2005 were approximately \$215,000 (2004 – \$86,000). This arrangement terminated when the company moved in December 2005 to new offices which are shared with Sithe Global. Sithe Global reimburses the company for its pro rata share of occupancy expenses. Occupancy costs paid by Sithe Global to the company amounted to \$95,825 and \$nil for the years ended December 31, 2005 and 2004 respectively.

A director of the company is also the director, corporate and commercial development for DUBAL. DUBAL and the company are parties to the DUBAL subscription agreement and the DUBAL off-take agreement.

Amounts due to and from affiliates represent short-term unsecured non-interest-bearing advances due upon demand.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

#### 12. Financial instruments

##### Fair value of financial instruments

The company's financial instruments include cash and amounts due from affiliates, other assets and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values.

##### Interest rate exposure

The company has no long-term debt outstanding.

##### Foreign currency risk

The company is exposed to foreign currency translation risk due to cash and accounts payable denominated in Canadian dollars and Guinean francs. As at December 31, 2005, assets consisting principally of cash and cash equivalents denominated in Canadian dollars totalled \$15,435 (2004 – \$700) and in Guinean francs totalled \$176,395 (2004 – \$140,059). The company does not enter into arrangements to hedge its foreign currency risk.

#### 13. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

#### 14. Subsequent events

On January 13, 2006, Global Alumina entered into a three-party agreement with the Government of the Republic of Guinea and Compagnie des Bauxites de Guinée (CBG) with respect to the respective bauxite mining rights of Global Alumina and CBG in Guinea. The agreement defines the conditions under which CBG transfers to the Republic of Guinea certain mining rights it held in its initial territory and identifies additional mining rights CBG will receive from the government as compensation for the rights transferred in order to satisfy CBG's long-term needs. The Government of Guinea in turn agreed to grant the mining rights released by CBG to Global Alumina.

On January 23, 2006, the Government of Guinea issued a formal decree granting to Global Alumina a bauxite mining concession. The concession is for a 25-year term, renewable in accordance with the basic agreement.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is management's assessment of the results and financial condition of Global Alumina Corporation ("Global Alumina" or the "Corporation") and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2005 and 2004, together with the related notes contained therein. The Corporation's most recent filings are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed through the Internet at [www.sedar.com](http://www.sedar.com). At the annual general meeting held on April 28, 2005, the Corporation's shareholders approved a change to the Corporation's name from Global Alumina Products Corporation to Global Alumina Corporation.

All dollar amounts are in United States dollars. The date of this management's discussion and analysis is March 13, 2006.

### Forward Looking Information

Certain information in this discussion is "forward looking information", which reflects management's expectations regarding the Corporation's future growth, results of operations, performance and business prospects and opportunities. In this discussion, the words "may", "would", "could", "should", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate" and "expect" and similar expressions, as they relate to the Corporation, are often, but not always, used to identify forward looking information. Such forward looking information reflects management's current beliefs and is based on information currently available to management. Forward looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of whether or not or the times at, or by which, such performance or results will be achieved. In particular, this discussion contains forward looking information pertaining to the following:

- bauxite reserve and resource quantities;
- the ultimate recoverability of reserves;
- future production levels;
- the amount, nature and timing of capital expenditures;
- the timing of refinery construction and mine start up;
- expectations regarding the negotiation of contractual rights;
- expectations regarding the financing of the Project (as defined below) and the sources of financing;
- prices for alumina and aluminium;
- operating and other costs;
- treatment under the fiscal terms of the "tax exhibit" to the Basic Agreement (as defined below) and the negotiation and terms of agreements relating to the Corporation's access to and use of certain infrastructure required for the development and operation of the Project; and
- business strategies and plans of management.

A number of factors could cause actual results to differ materially from the results discussed in the forward looking information, including, but not limited to: the political and economic risks of investing in a developing country; the Corporation may not be able to secure sufficient financing; construction may be affected by cost overruns, delays, labour shortages and other construction risks; the Corporation's dependence on a single mining property; the possible forfeiture of the Mining Concession (as defined below) in certain circumstances; volatility of alumina and aluminium prices; operational risks such as access to infrastructure and skilled labour; the cost of resettlement of affected populations; the volatility of prices of raw materials; and all other factors discussed under the heading "Risk Factors" in the Corporation's management's discussion and analysis dated November 8, 2005, available on SEDAR, and the Corporation's Annual Information Form to be filed on SEDAR on or before March 31, 2006. Although the forward looking information contained in this discussion is based upon what management of the Corporation believes are reasonable assumptions, Global Alumina cannot assure investors that actual results will be consistent with this forward looking information. If the assumptions underlying forward looking information prove incorrect or if more of the risks

or uncertainties materialize, actual results may vary materially from those described in this discussion as intended, planned, anticipated, believed, estimated or expected. This forward looking information is made as of the date of this discussion, and Global Alumina assumes no obligation to update or revise it to reflect new events or circumstances.

### **Business of Global Alumina**

The predecessor business of Global Alumina was carried on by GAPCO (Guinea Aluminium Products Corporation) Ltd. (“GAPCO”), a British Virgin Islands Corporation incorporated on July 21, 1999. GAPCO completed a share exchange transaction with PL Internet Inc. on May 25, 2004, which changed its name to Global Alumina Products Corporation. Global Alumina filed articles of continuance under the *Business Corporations Act* (New Brunswick) on May 26, 2004.

Global Alumina’s business is the development of an alumina refinery in a major bauxite mining region of the Republic of Guinea (“Guinea”), together with a bauxite mine to supply the refinery, port, railway and road infrastructure and all other ancillary infrastructure (the “Project”). This region is one of the largest bauxite producing regions in the world. Global Alumina intends to accomplish this initiative through its wholly-owned subsidiary, Guinea Alumina Corporation, Ltd. (“GAC”) (formerly Boke Alumina Corporation, Ltd.), also a British Virgin Islands Corporation, and its Guinean subsidiary, Guinea Alumina Corporation, S.A. (“Guinea Alumina”) (formerly Boke Alumina Corporation S.A.R.L.). Global Alumina has been unprofitable since incorporation and to date has not earned any form of revenue, except interest income and other ancillary income related to fees earned on sales made by engineering consultants at Aluminpro Aluminium Industry Professionals Inc. (“Aluminpro”), a subsidiary of Global Alumina. To date, it has incurred a cumulative deficit of \$44,392,761 since the commencement of operations on July 21, 1999.

#### ***Basic Agreement and Mining Concession Decree***

On October 15, 2004, the Corporation and the Ministry of Mines and Geology (the “Ministry of Mines”) of the Republic of Guinea signed an agreement (the “Basic Agreement”) for the development, construction and operation of the Project. The Basic Agreement is a comprehensive investment and concession agreement that grants GAC and Guinea Alumina exclusive rights to build and operate an alumina refinery within a 690 square kilometre mining concession area (the “Mining Concession”) near Sangaredi. On May 17, 2005, the Corporation and the Ministry of Mines signed an amendment to the Basic Agreement modifying certain terms, including amending the 15 year corporate tax exemption to a schedule of fixed annual payments. On May 19, 2005, the Republic of Guinea’s National Assembly unanimously ratified the amended Basic Agreement. On July 4, 2005, the President of Guinea signed a decree publishing the amended Basic Agreement as law.

On January 23, 2006, the Government of Guinea issued a formal decree granting the Mining Concession to Global Alumina. Under the terms of the decree, the concession has an initial term of 25 years, renewable in accordance with the Basic Agreement.

On January 13, 2006, an agreement (the “Tripartite Agreement”) was entered into between Global Alumina, the Government of Guinea and Compagnie des Bauxite de Guinée (“CBG”), a joint venture between Halco (Mining) Inc. and the Government of Guinea. Under the Tripartite Agreement, CBG agreed to transfer the area which would become the subject of the Mining Concession, which initially formed a portion of the original CBG concession, back to the Government of Guinea in exchange for exploitation permits for certain additional areas in the Cogon Tominé region of Guinea. The Government of Guinea subsequently granted the Mining Concession area to Global Alumina. If Global Alumina does not realize the refinery within six years from the date the Government of Guinea published the Mining Concession decree, its Mining Concession will revert to the Government of Guinea and, in the case of such reversion, CBG retains a right to request by written notice that the Government of Guinea return the Mining Concession to CBG’s management. The Mining Concession will also revert to the Government of Guinea upon: the bankruptcy, cessation of business or liquidation of Global Alumina; or the transfer by Global Alumina to a third party of its mining rights with respect to the Mining Concession, if transfer is made without the written consent of the Government of Guinea and the proposed refinery has not been realized in accordance with the terms of the Basic Agreement.

#### ***Off-take Agreement Discussions***

On September 30, 2005, Guinea Alumina entered into a 20 year purchase and sale agreement (the “DUBAL Off-take Agreement”) with Dubai Aluminium Company Limited (“DUBAL”) to purchase on a take or pay basis 40%

of the annual production from the proposed refinery at a price expressed as a percentage of the three-month forward price of high-grade aluminium as set on the London Metal Exchange (the ‘‘LME’’). The percentage has been fixed for ten years of the contract and fixed within a range thereafter.

On January 24, 2006, Guinea Alumina entered into a 20 year purchase and sale agreement with Glencore International AG (‘‘Glencore’’) to purchase on a take or pay basis 420,000 tonnes of alumina (representing 14% of the projected annual production from the proposed refinery) at a price expressed as a percentage of the three-month forward price of high-grade aluminium as set on the LME subject to a minimum price. The percentage has been fixed for the life of the contract.

On December 7, 2001, GAPCO granted an option (the ‘‘Mitsubishi Option’’) to Mitsubishi Corporation (‘‘Mitsubishi’’) for the purchase of up to 25% of the annual production from the proposed refinery. Under the Mitsubishi Option, after the date on which the Corporation has secured long-term purchase and sale agreements for 75% of the annual production from the proposed refinery, Mitsubishi will have 60 days to notify the Corporation of its intent to exercise all or part of its option to purchase the remaining 25% of the annual production from the proposed refinery. Upon the delivery of such notice from Mitsubishi, the Corporation must enter into good faith negotiations with Mitsubishi on the terms of a long-term purchase and sale agreement, the terms and conditions of which must be mutually agreeable to the parties. The obligations of GAPCO under the Mitsubishi Option were assumed by Global Alumina following the Arrangement.

On October 30, 2001, GAPCO granted an option to Marubeni Corporation (‘‘Marubeni’’) for the purchase of up to 20% of the annual production from the proposed refinery, on similar terms to the Mitsubishi Option. Under an agreement dated March 2, 2006 (the ‘‘Marubeni Option Agreement’’), Marubeni agreed to terminate this option in consideration for a lump-sum payment of \$50,000 from Global Alumina. Under the Marubeni Option Agreement, the Corporation has also granted Marubeni an option to purchase up to an aggregate of 20% of the annual alumina output resulting from any addition of a third production line to the proposed refinery.

Under a memorandum of understanding, entered into in May 2005 with China Alumina Group, Ltd. (‘‘CAG’’), CAG expressed its intention to enter into a long-term purchase and sale agreement with Guinea Alumina for 25% of the annual production from the proposed refinery and to acquire an equity interest in Global Alumina. The memorandum of understanding has expired, but the parties remain in discussion with respect to off-take arrangements.

#### Selected Quarterly Information (unaudited)

|  | Quarter<br>ended<br>December 31,<br>2005 | Quarter<br>ended<br>September 30,<br>2005 | Quarter<br>ended<br>June 30,<br>2005 | Quarter<br>ended<br>March 31,<br>2005 | Quarter<br>ended<br>December 31,<br>2004 | Quarter<br>ended<br>September 30,<br>2004 | Quarter<br>ended<br>June 30,<br>2004 | Quarter<br>ended<br>March 31,<br>2004 |
|--|--|---|--------------------------------------|---------------------------------------|--|---|--------------------------------------|---------------------------------------|
| Total revenues<br>(interest and fee<br>income) . . . . . | \$ 488,573                               | \$ 189,402                                | \$ 192,209                           | \$ 187,236                            | \$ 125,901                               | \$ 126,368                                | \$ 113,322                           | \$ 75,082                             |
| Net loss . . . . .                                       | (6,434,571)                              | (3,437,629)                               | (3,369,821)                          | (4,026,267)                           | (1,745,074)                              | (8,333,907)                               | ( 5,541,977)                         | (1,453,702)                           |
| Net loss per share . .                                   | (0.05)                                   | (0.03)                                    | (0.03)                               | (0.03)                                | (0.02)                                   | (0.08)                                    | (0.06)                               | (0.02)                                |

#### Results of Operations

Global Alumina has reported operating losses since inception. Global Alumina expects to continue to sustain operating losses in the future as it is expected to incur substantial costs during the development and construction phase of the Project and earn no revenue prior to 2009 at the earliest.

Global Alumina’s operations during the year ended December 31, 2005 produced a net loss of \$17,268,288 or \$0.14 per share (2004 – \$17,074,660 or \$0.18 per share). Interest income for the year was \$759,923 (2004 – \$406,773). The interest income in 2005 and 2004 was earned on the proceeds realized from the private placements described under ‘‘Liquidity and Capital Resources’’.

The ‘‘Breakdown of Expenditures’’ table below provides a summary analysis of operating expenditures for each of the three years ended December 31, 2005. Coincident with an upturn in the market for alumina in 2004, the Corporation substantially accelerated its alumina refinery project development, engineering, financing and other pre-construction activities. This increased activity is reflected in the substantial increase in capital expenditures related to construction-in-progress in 2005 as compared to 2004. The expenditures related primarily to the refinery basic

engineering, port engineering and design, environmental and other infrastructure engineering. The decrease in engineering expenses is mainly due to the Corporation's decision to capitalize all costs directly related to the construction of the refinery beginning October 1, 2004. Costs directly associated with the early stage construction of the Corporation's refinery facility in Guinea for the year ended December 31, 2005 were \$69,461,534, of which \$25,178 was recorded as engineering expenses in the Consolidated Statements of Operations and Deficit and \$69,436,356 was capitalized and shown on the Consolidated Balance Sheet as construction-in-progress as compared to \$6,399,812 of construction-in-progress and \$9,340,006 in engineering expenses for the year ended December 31, 2004.

Professional and consulting fees include expenses related to consulting, legal, financing and accounting services. Increased capital raising activities and the negotiation of off-take agreements with DUBAL, Glencore and other strategic parties resulted in the increase in professional and consulting fees in 2005 as compared to 2004. The significant components of general and administrative expenses include Guinean operating expenses, travel and living expenses and insurance expenses. General and Administrative expenses increased by \$4,429,007 to \$6,685,958 in 2005 due primarily to the expansion of the operations in Guinea as the Corporation accelerated its pre-construction activities. Amortization expense in 2005 was \$1,526,793, an increase of \$1,034,971 over the prior year. The increase was due primarily to the acquisition in 2005 of construction equipment in Guinea. Of the total amortization charges in 2005, \$593,805 relates to the amortization of engineering contracts attributable to the acquisition of Aluminpro in July 2004. The intangible assets were amortized over a twelve month period commencing July 2004 and were fully amortized as at December 31, 2005.

### Capital Expenditures

The Corporation's current preliminary estimate of the total cost of the Project is in the range of \$2.65 to \$2.95 billion. The anticipated increase in the total Project cost is due primarily to a combination of the severe shortage of materials, construction equipment and contractors as a result of significant unusual events around the world (for example, the Tsunami reconstruction, Iraq reconstruction, the Pakistani earthquake and the impact of hurricanes in the United States and Caribbean) and higher energy prices, in addition to the substantial increase in new investment in the natural resource sector over the past several years. In addition, as a result of on-going engineering, the Corporation has determined to increase the initial capacity of the refinery by approximately 7% from 2.8 million tonnes per year to 3.0 million tonnes per year. The Corporation has not determined final costs estimates for completion of the Project and has not completed a final economic feasibility study of the Project. The final cost estimates will depend on the completion of engineering studies and the negotiation of construction contracts. Expenditures to date on the Project are approximately \$91 million. The Project development schedule contemplates that bauxite production from the Mining Concession will commence in 2008, initial alumina production from the refinery will commence in early 2009 and that within six months thereafter a second processing line will be completed, bringing the refinery to production at its planned 3.0 million tonnes per year capacity by 2010. If the Corporation does not realize the refinery by January 2012, the Mining Concession will revert to the Government of Guinea.

The Project is a large, complex undertaking that will require substantial engineering, construction and operating expertise and execution. Potential cost overruns and completion delays are significant risks in projects of this size, particularly in less developed countries. Price escalation is a concern especially in current market conditions where unstable markets for building materials and consumables have risen steadily over the past five years. In addition, the Corporation must relocate households affected by the development of the Project and will incur the cost of developing resettlement areas and compensating households for loss of lands, structures and crops. The cost of the resettlement plan will depend on the number of affected persons and on the outcome of negotiations with those persons and cannot be predicted with certainty. Such costs could be material.

### Breakdown of Expenditures

| <u>Expenditures</u>              | <u>Year ended<br/>December 31,<br/>2005</u> | <u>Year ended<br/>December 31,<br/>2004</u> | <u>Year ended<br/>December 31,<br/>2003</u> |
|----------------------------------|---|---|---|
| Construction-in-progress .....   | \$69,436,356                                | \$ 6,399,812                                | \$ Nil                                      |
| Engineering .....                | 25,178                                      | 9,340,006                                   | 106,328                                     |
| Professional fees .....          | 10,087,779                                  | 5,426,554                                   | 815,512                                     |
| General and administrative ..... | 6,685,958                                   | 2,256,951                                   | 205,784                                     |
| Amortization .....               | <u>1,526,793</u>                            | <u>491,822</u>                              | <u>Nil</u>                                  |
| Total expenditures .....         | <u>\$87,762,064</u>                         | <u>\$23,915,145</u>                         | <u>\$1,127,624</u>                          |

## **Liquidity and Capital Resources**

At December 31, 2005, the Corporation had working capital of \$73,470,032, compared to working capital of \$47,596,920 at December 31, 2004. The increase is primarily attributed to the Corporation receiving net proceeds of \$117,150,448 from the private placements described below.

### ***Private Placements***

On September 30, 2005, the Corporation closed a private placement to DUBAL of 10,000,000 common shares at \$2.00 per share for gross proceeds of \$20 million (the ‘Initial Subscription’). The subscription proceeds are shown as a receivable at September 30, 2005 and were received by the Corporation on October 3, 2005. The offering expenses for the Initial Subscription were \$120,435.

On October 20, 2005, the Corporation closed a private placement to Emirates International Investments LLC (‘EIIC’) of 25,000,000 common shares at \$2.00 per share for gross proceeds of \$50 million. The offering expenses for the EIIC private placement amounted to \$2,627,575.

On December 29, 2005, the Corporation closed a private placement to IDB Infrastructure Fund L.P. (‘IDBIF’), a limited partnership established in the Kingdom of Bahrain, of 22,222,222 common shares at \$2.25 per share for gross proceeds of \$50 million. The offering expenses for the IDBIF private placement amounted to \$101,541.

### ***Contractual Commitments***

Effective March 1, 2004, GAPCO appointed Citigroup Global Markets Inc. (‘Citigroup’) as its financial advisor in connection with raising debt for development and construction funding of the Project. The Corporation has agreed to pay to Citigroup a monthly retainer of \$50,000 and success fees based on an agreed upon formula. The success fees will accrue upon receipt of commitment letters for project-associated debt financing and will be payable in full on the execution and delivery of the definitive financing documents. The agreement with Citigroup will continue until the earlier of the consummation of debt financing and January 1, 2007.

On February 18, 2005, Global Alumina entered into a memorandum of understanding with Technip France S.A. (‘Technip’) under which Technip will assume the role of engineering, procurement and construction contractor for the construction of the Corporation’s refinery in Guinea. Under the memorandum of understanding, Technip has agreed to move forward on the design and procurement of the refinery (‘Phase One’) and both parties have agreed to commence negotiations on the terms of the final contract for the construction of the refinery. To date, the Corporation has paid an aggregate of \$21,107,615 to Technip in connection with Phase One. The total remaining aggregate payments to be made to Technip in connection with Phase One will depend on the current negotiations between the Corporation and Technip with respect to the scope and time period for completion of Phase One.

Under a memorandum of understanding dated April 29, 2005, as amended by an amending agreement dated October 26, 2005 (collectively, the ‘Joint MOU’), Technip, Consolidated Contractors International Company, SAL (‘CCIC’) and Chicago Bridge & Iron Company B.V. (‘CB&I’) agreed to cooperate during the design and procurement phase of the proposed refinery, including the early works and mobilization phase and the construction, pre-commissioning and commissioning phase of the refinery. The parties agreed to negotiate a more detailed agreement with the Corporation. Under the Joint MOU, the Corporation will reimburse CCIC and CB&I for direct works performed during the early works and mobilization phase of the refinery, based on a schedule to the Joint MOU setting out hourly rates applicable to specified personnel. CB&I is currently engaged in the engineering work in connection with the precipitation unit of the proposed refinery. To date, the Corporation has made aggregate payments of \$8,455,985 and \$851,221 to CCIC and CB&I, respectively.

From time to time, Global Alumina may enter into letter of credit arrangements in the ordinary course of business. As of December 31, 2005, there was one letter of credit outstanding for \$15,316,955 in connection with dredging activities for construction of the port facilities in Guinea. Global Alumina is required to keep cash on hand in this amount until the letter of credit expires on April 28, 2006. As of January 25, 2006, the amount of the outstanding letter of credit was reduced to \$6,612,200.

The Corporation expects that it will have sufficient cash resources to meet its non-discretionary operating and capital expenditure requirements through to the end of 2006. Management will adjust the Corporation’s discretionary

operating and capital expenditures according to its available capital resources during 2006. The Corporation will require substantial additional debt and equity financing in order to maintain its current anticipated construction schedule for initial alumina production in 2009. The Corporation has entered into equity financing agreements as described under “Financing Agreements” below and is continuing discussions with other potential strategic equity investors.

The Corporation will not be able to complete the Project unless it is successful in its proposed capital raising efforts. As a development-stage company with no revenues and only limited assets and capital, there is no assurance that the Corporation will be able to obtain the required financing to complete the Project on terms favourable to the Corporation or at all. Global Alumina anticipates the need to raise approximately \$1 billion pursuant to equity offerings and an estimated \$1.80 billion of debt capital to complete the Project. To date, the Corporation has raised approximately \$244 million through the private placement of equity securities and the exercise of outstanding Warrants and has conditional commitments from DUBAL and EIIC for an additional aggregate estimated amount of \$230 million. See “Financing Agreements” below. The substantial amount of debt capital required for the Project necessitates a complex financing plan with emphasis on official development, export credit and insured commercial sources. The absence of a developed legal regime in Guinea, especially with respect to real and personal property security, will make more complicated and less certain the ability of lenders to take a security interest in the Corporation’s assets. This may limit the universe of lenders willing to lend to the Corporation or increase the Corporation’s borrowing costs or otherwise subject the Corporation to more onerous financing terms. There is no assurance that the Corporation will secure sufficient capital on terms and conditions acceptable to it or at all. Failure to raise additional funding would have a material adverse effect on the Corporation and its ability to continue the Project.

| <u>Contractual Obligations</u>          | <u>Payments Due by Period</u> |                             |                      |                      |                          |
|---|-------------------------------|-----------------------------|----------------------|----------------------|--------------------------|
|   | <u>Total</u>                  | <u>Less than<br/>1 year</u> | <u>1-3<br/>years</u> | <u>4-5<br/>years</u> | <u>After<br/>5 years</u> |
| Operating Leases . . . . .              | \$3,750,978                   | \$652,344                   | \$1,304,688          | \$1,304,688          | \$489,258                |
| Total Contractual Obligations . . . . . | \$3,750,978                   | \$652,344                   | \$1,304,688          | \$1,304,688          | \$489,258                |

### **Financing Agreements**

The private placements to DUBAL, EIIC and IDBIF are part of the Corporation’s efforts to secure equity financing for the Project. The agreements are described below.

#### ***The DUBAL Subscription Agreement***

On August 10, 2005, the Corporation entered into a subscription agreement with DUBAL (the “DUBAL Subscription Agreement”) and completed the Initial Subscription thereunder, as described above under “Liquidity and Capital Resources”, on September 30, 2005.

DUBAL has also agreed to subscribe for additional common shares for an estimated aggregate subscription price of \$180 million (the “Additional Subscription”). Following the Additional Subscription, DUBAL will hold 25% of the Corporation’s common shares on a fully-diluted basis. In consideration of the estimated aggregate \$200 million payments by DUBAL, DUBAL will also be entitled to receive a number of common shares equal to one-third of the common shares issued by the Corporation from time to time pursuant to the conversion of certain convertible debt securities to be issued to third parties (including the proposed EIIC Debenture, as described below). DUBAL’s entitlement to the common shares to be delivered upon conversion of the convertible debt arises upon the completion of the Additional Subscription but the delivery of such common shares to DUBAL will be made, at no additional cost to DUBAL, at dates in the future if and when the convertible debt is issued and converted and the number of such common shares is known. In addition, After the closing of the Additional Subscription and for so long as DUBAL owns not less than 10% of the outstanding common shares, DUBAL will be entitled to subscribe for up to 25% of any future issuances of common shares (or securities that may be converted into or exchanged for common shares) by the Corporation at the same price at which the securities are offered to others.

The Additional Subscription is conditional on: (i) the Corporation raising by way of issuance of equity securities (including convertible debt) a cumulative amount of equity sufficient to satisfy the requirement of the Project lenders for equity capital (the “Project Equity Raise”); (ii) the Corporation amending its articles to explicitly limit its corporate objectives to the development, operation and expansion of alumina refineries in Guinea and ancillary

activities; and (iii) the Corporation obtaining conditional commitments or other evidence of agreement in principle from Project lenders of their intent to provide the necessary debt financing for completion of the Project.

Under the DUBAL Subscription Agreement, DUBAL has the right to nominate one representative for election to the Corporation's Board of Directors prior to the completion of the Additional Subscription. Ahmed Fikree, the DUBAL representative, was appointed to the Board of Directors in November 2005. After the completion of the Additional Subscription: for so long as DUBAL holds not less than 19.9% of the issued and outstanding common shares, DUBAL will have the right to nominate 25% of the Board of Directors of Global Alumina; and for so long as DUBAL holds not less than 10% but less than 19.9% of the issued and outstanding common shares, DUBAL will have the right to nominate 16.67% of the Board of Directors of Global Alumina.

### ***The EIIC Subscription Agreement***

Under a subscription agreement with EIIC dated August 16, 2005 and amended September 22, 2005 (collectively, the "EIIC Subscription Agreement"), EIIC purchased 25,000,000 common shares at \$2.00 per share on October 20, 2005, as described above under "Liquidity and Capital Resources".

Under the EIIC Subscription Agreement, EIIC has also agreed to subscribe for a \$50,000,000 principal amount convertible debenture (the "Debenture"). The Debenture will have a five year term and will bear interest at the rate of 10% per year payable on June 30 and December 31 of each year. For a period of 12 months following notification by the Corporation to EIIC that the Project Equity Raise has been completed, the Debenture will be convertible into common shares, in whole but not in part, at a conversion price of \$2.50 per common share for a total of 20 million common shares. The Corporation anticipates that the Debenture will be issued prior to the end of 2006.

Under the EIIC Subscription Agreement, EIIC has the right to nominate one representative for election to the Corporation's Board of Directors so long as EIIC holds not less than 10% of the Corporation's issued and outstanding common shares. EIIC will have the right to remove and replace its representative upon 90 days notice to the Corporation prior to each annual general meeting of the Corporation's shareholders. The Corporation anticipates that EIIC's nominee will be put forward as a nominee for election at the Corporation's annual general and special meeting of shareholders to be held on May 8, 2006.

### ***The IDBIF Subscription Agreement***

On December 29, 2005, the Corporation closed a private placement to IDB Infrastructure Fund L.P. ("IDBIF"), a limited partnership established in the Kingdom of Bahrain, for 22,222,222 common shares at \$2.25 per share for gross proceeds of \$50 million. Under the subscription agreement dated November 29, 2005 between the Corporation and IDBIF (the "IDBIF Subscription Agreement"), as long as IDBIF holds more than 5% of the Corporation's issued and outstanding common shares, the Corporation will not issue any common shares at a price per share of less than \$2.25, other than pursuant to (i) the terms of certain pre-existing agreements; (ii) an exercise of warrants issued by the Corporation prior to the execution of the IDBIF Subscription Agreement; (iii) an exercise of options granted in the ordinary course and consistent with past practices; or (iv) a public offering of common shares by way of prospectus.

### **Off-Balance Sheet Arrangements**

The Corporation had no off-balance sheet arrangements as at December 31, 2005 or at December 31, 2004.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts or revenues and expenses during the reporting year. Actual results could differ from those estimates.

The Corporation's significant accounting policies are summarized in Note 2 to the audited financial statements for the year ended December 31, 2005. The policies described below have the most significant effect in the preparation and presentation of our consolidated financial statements.

### ***Development Costs***

Based on the criteria set out in Canadian Institute of Chartered Accountants (“CICA”) Handbook section 3450 “Research and Development Costs” and Accounting Guideline 11 “Enterprises in the Development Stage”, the Corporation has determined that all of its development costs to date should be expensed. The Corporation will closely monitor future developments to assess the appropriateness of this policy.

### ***Construction-In-Progress***

Beginning October 1, 2004, in accordance with Section 3061, “Property, Plant and Equipment,” of the CICA Handbook, the Corporation commenced capitalization of all costs directly related to the construction of its alumina refinery plant. Construction-in-progress is recorded at cost. Amortization will commence when the alumina refinery begins commercial production.

The Corporation will recognize a partial or full impairment to construction-in-progress whenever events or changes in circumstances indicate that the carrying amount exceeds fair value. This would occur when one or more of the following conditions are identified:

- (a) a change in the extent to which the project asset is expected to be used;
- (b) a change in the manner in which the project asset is expected to be used;
- (c) an interruption to the construction project for an extended period of time;
- (d) physical damage to the construction project; or
- (e) a change in the law or environment significantly affecting the completion of the construction project.

### ***Financing Costs***

The costs incurred by the Corporation in anticipation of securing its project financing arrangements are expensed unless all of the following criteria are met:

- (a) the costs are incremental and directly related to financing;
- (b) the proposed financing details are specifically identified; and
- (c) completion of the financing is considered to be more likely than not.

If all of the above criteria are met, the costs will be deferred and expensed over the related term of the debt or, in the case of an equity offering, recorded as a reduction of the proceeds.

### **Financial Instruments and Other Instruments**

The Corporation’s financial instruments include cash and cash equivalents, amounts due from affiliates, other assets and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values.

### **Outstanding Share Data**

#### ***Common Shares***

The Corporation has authorized an unlimited number of common shares, with no par value, of which 177,682,746 shares were issued and outstanding as at December 31, 2005 and 199,847,145 common shares are issued and outstanding as of the date hereof.

#### ***Share Purchase Warrants***

| <u>Number of Shares<br/>Exercisable</u> | <u>Expiry Date</u> | <u>Exercise Price</u> |
|---|--------------------|-----------------------|
| 250,000                                 | July 19, 2006      | \$1.50                |
| 4,000,000                               | December 31, 2006  | \$1.00                |
| 2,790,850                               | February 3, 2008   | \$1.00                |

As of December 31, 2005, there were outstanding an additional 23,765,749 warrants exercisable for an aggregate of 23,765,749 common shares at an exercise price of \$1.50 per share. These warrants had an expiry date of February 3, 2006. On or before February 3, 2006, 22,136,899 of these warrants were exercised, for aggregate proceeds of \$33,205,348.50. The remaining 1,628,850 warrants expired unexercised.

### ***Employee Stock Options***

Under the Corporation's stock option plan for employees, directors, officers and consultants of the Corporation there have been 2,390,500 options granted. Each option is exercisable for one common share. Ten million common shares have been reserved for issuance under the stock option plan. Options with respect to 7,609,500 common shares remain available for future issuance. The following table summarizes the relevant expiry dates and exercise prices for options granted under the stock option plan as of the date hereof.

| <u>Number of Shares<br/>Exercisable</u> | <u>Expiry Date</u> | <u>Exercise Price</u> |
|---|--------------------|-----------------------|
| 1,010,000                               | May 24, 2009       | \$1.50                |
| 25,000                                  | August 24, 2009    | \$1.52                |
| 752,000                                 | March 10, 2010     | \$2.50                |
| 483,500                                 | July 25, 2010      | \$1.40                |
| 75,000                                  | November 8, 2010   | \$1.57                |
| 45,000                                  | March 7, 2011      | \$1.75                |

The fair value of stock options is recognized in income over the applicable vesting period as compensation expense. Compensation expense in the amount of \$710,682 (2004 – \$271,483) has been recognized in the financial statements.

### **Related Party Transactions**

Related party transactions are disclosed in Note 11 to the audited annual financial statements for the year ended December 31, 2005 and are summarized below.

The Corporation has agreed to pay Karalco Resources Ltd. ("Karalco") a monthly retainer for professional services regarding development activities with respect to the Project. Compensation arrangements for Karalco's consulting services are subject to review based on the status of the Project and the level of activity required of Karalco on behalf of the Corporation. The monthly retainer was increased to \$60,000 from \$45,000 effective October 1, 2004. Karalco is controlled by Karim Karjian, a director and shareholder of Global Alumina. Between October of 2004 and February of 2005, the Corporation and Karalco agreed to an incentive based compensation arrangement in addition to the monthly payments of \$60,000. Payments made to Karalco under this incentive structure are based on the achievement of specific goals, including: the ratification by the Guinea National Assembly of the Basic Agreement; the promulgation of the subsequent decree by the President of Guinea; the entering into of a co-operation agreement among Global Alumina, Guinea and CBG in respect of the use of common rail and port facilities; and such other events as will be agreed to by the Corporation and Karalco. The monthly retainer payments are designed to reflect an estimated portion that is attributable to the out-of-pocket and related administrative expenses ("Incidental Expenses") incurred by Karalco. The Corporation periodically reviews the terms and conditions of the arrangement with Karalco and resets the retainer to reflect such changes in estimates. During the fourth quarter in 2005, the Corporation determined that an amount of \$300,000 was payable with respect to the Incidental Expenses. The total payments with respect to the monthly retainer, the incentive based compensation and the Incidental Expenses for the year ended December 31, 2005 were \$1,270,000 (2004 – \$585,000).

Prior to 2006, the Corporation had an agreement with Herakles Capital Corp. ("Herakles"), one of its shareholders, to either pay directly or reimburse Herakles for professional services rendered by employees of, and consultants retained by, Herakles. Herakles is controlled by Bruce Wrobel, Global Alumina's Chief Executive Officer and a shareholder of the Corporation. Herakles was reimbursed at cost for all professional services rendered by employees of, and consultants retained by, Herakles. The total payments for the years ended December 31, 2005 and 2004 amounted to approximately \$1,181,000 and \$543,000, respectively. Effective January 1, 2006, the agreement with Herakles covers solely the professional services of Mr. Wrobel.

The Corporation also reimbursed Herakles for occupancy expenses. Occupancy expenses for the years ended December 31, 2005 and 2004 were approximately \$215,000 and \$86,000, respectively. This arrangement terminated

when the Corporation moved in December 2005 to new offices, which are shared with Sithe Global Power, LLC (“Sithe Global”). Sithe Global reimburses the Corporation for its pro rata share of occupancy expenses. Occupancy costs paid by Sithe Global to the Corporation amounted to \$95,825 and \$nil for the years ended December 31, 2005 and 2004, respectively.

Mr. Wrobel is also the Chief Executive Officer of Sithe Global, which has provided and continues to provide professional services to the Corporation through employees of, and consultants retained by, Sithe Global. Sithe Global is reimbursed at cost for all professional services rendered by employees of, and consultants retained by, Sithe Global. The total payments for the years ended December 31, 2005 and 2004 amounted to approximately \$218,000 and \$nil, respectively.

Prior to September 2004, Mr. Wrobel was the Chief Executive Officer of Sithe Energies, Inc. (“Sithe Energies”), which formerly provided professional services to the Corporation. Sithe Energies was reimbursed at cost for those services. The total payments for the years ended December 31, 2005 and 2004 were \$nil and \$140,000, respectively. In January 2005, following a change of control at Sithe Energies, the relationship between Sithe Energies and Global Alumina was terminated.

Mr. Fikree is the Director, Commercial and Corporate Development, for DUBAL. DUBAL and the Corporation are parties to the DUBAL Subscription Agreement and the DUBAL Off-take Agreement.

Amounts due to and from affiliates represent short-term unsecured non-interest bearing advances due upon demand.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

On June 7, 2005, Global Alumina incorporated Global Alumina Services Company, a Delaware company, to provide management services to the Corporation, including day-to-day management activities and direction of operations, regulatory compliance and investor relations. The foregoing services are being provided by Global Alumina Services Company upon terms and conditions which will be formalized pursuant to a services agreement between Global Alumina and Global Alumina Services Company. To date, the services agreement has not been completed or executed by either party.

## **Risk Factors**

The Corporation is a development-stage company undertaking a large complex capital-intensive project in a developing country and is subject to numerous risks and challenges. In addition to the risk factors described herein and under the heading “Risk Factors” in the Corporation’s management’s discussion and analysis dated November 8, 2005, available on SEDAR, and the Corporation’s Annual Information Form to be filed on SEDAR on or before March 31, 2006, additional risks and uncertainties, including risks not currently known to the Corporation or that the Corporation currently considers immaterial, may also adversely affect the Corporation’s business. Any of these risks could materially and adversely affect the Corporation’s business, financial condition, results of operations and growth strategy.

## **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Corporation’s Chairman and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at the end of the period covered by this management’s discussion and analysis, management of the Corporation, with the participation of the Chairman and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Corporation’s disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management’s discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Corporation’s annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings*) and other reports filed or submitted under Canadian

securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Corporation, including the Chairman and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Additional Information**

Additional documents and information regarding the Corporation, including summaries of the material terms of the EIIC, DUBAL and IDBIF transactions and the Corporation's Annual Information Form to be filed on SEDAR on or before March 31, 2006, are or will be available through SEDAR and can be accessed through the Internet at [www.sedar.com](http://www.sedar.com).



# Global Alumina