



ANGLO ASIAN MINING PLC

Anglo Asian Mining PLC is a mining development company with eight copper and gold development properties in three separate mining areas of Azerbaijan.

The rights to extract all minerals in the Contract Areas are through a Production Sharing Agreement with the Azerbaijan Government.

OPERATIONAL HIGHLIGHTS

- ◆ JORC compliant resource for Gedabek
- ◆ Scoping study result for Gedabek determines optimal treatment is heap leaching
- ◆ CIL plant to be sold to part fund Gedabek
- ◆ New Chairman and Chief Executive

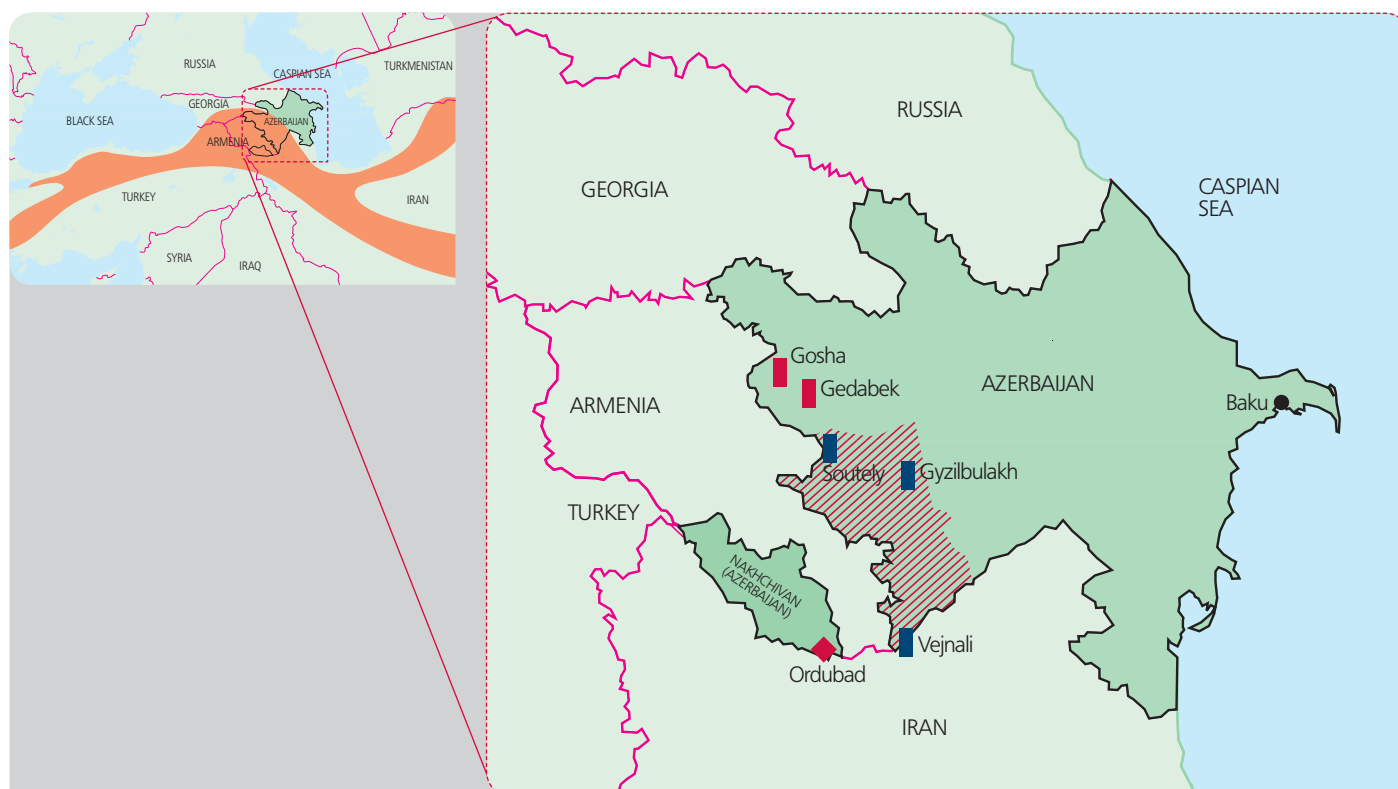
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CONTRACT AREA LOCATIONS

Azerbaijan is situated in south-western Asia, bordering the Caspian Sea between Iran and Russia. Azerbaijan borders Armenia, Georgia, Iran, Russia and Turkey and is split into two parts by Armenia; the smaller part is called the Autonomous Republic of Nakhchivan.

Azerbaijan covers an area of over 86,000km², ranging from the flat Kura-Araks Lowland with Great Caucasus Mountains to the north to the Karabakh Upland in the west. The climate is semi-arid, with cold winters and hot summers.



■ Tertiary fold belt

The Contract Areas are located on a major tectonic belt known as the Middle East Tertiary Fold Belt, also known as the Tethyan Tectonic Belt. This is one of the world's significant copper and gold bearing belts.

■ Gosha

The 300km² Contract Area is 60km west of Gedabek and contains the Gosha property as well as the Itkirlan and Munduglu prospects.

■ Gedabek

The 300km² Contract Area is 55km from Azerbaijan's second biggest city, Ganja. In addition to Gedabek the area contains other properties: Gyzildzhadag, Bittibulag, Maarif, Ertep, Geyer, Shekerbey, Gumlu and Aitalin.

■ Occupied territories (Hatched area)

Additional three Contract Areas, rights commence when access is obtained.

◆ Ordubad

The 462km² Contract Area in Nakhchivan region contains numerous deposits including: Shakardara, Piyazbashi, Misdag, Agyurt, Shalala and Diakhchay within a 5km radius. Other properties in the area are Yashiling, Goyhundur, Keleki and Kotam.

CHAIRMAN'S STATEMENT

HIGHLIGHTS

- ◆ Drilling commenced Q1 2006 at Gedabek
- ◆ CIL plant dismantled, containerised and shipped to Singapore
- ◆ JORC compliant resource for Gedabek announced
- ◆ Notice of Discovery submitted to MENR

GENERAL

2006 has been a significant year for Anglo Asian with strategic focus shifting from the Ordubad region to the Gedabek project in the West of Azerbaijan which was considered to be the best prospect for early production. In addition the Board and the management team have been strengthened with individuals who have a combination of both mining and Former Soviet Union experience. This recruitment and the retention of SRK Consulting have led to a more focused approach to the Company's activities and prospects. The decision to primarily concentrate on Gedabek has been rewarded with an upgraded resource estimate and a scoping study confirming the economic viability of the property.

GEDABEK AND GOSHA

Drilling commenced early in 2006 initially using three rigs but increasing to five at the peak. One rig now remains on site investigating extensions to the ore body. The drilling programme progressed well and a JORC compliant resource was announced in December, which was based on 15,507 metres of drilling in 129 diamond core and reverse circulation drill-holes. Metallurgical testwork confirmed that the optimal treatment for Gedabek ore is a combination of open pit mining and heap leaching. This was a very positive outcome for the Company as heap leaching requires lower capital expenditure and operating costs than the originally proposed conventional CIL ("Carbon-in-Leach") technology.

The Gedabek project will now move to feasibility which is expected to be completed in Q2 2007 with construction targeted to begin in the summer. On 26 February 2007 the Company submitted a Notice of Discovery and its Commerciality for the Gedabek property, to the Azerbaijan Ministry of Ecology and Natural Resources.

Under the terms of the Production Sharing Agreement ("PSA"), the submission of the Notice of Discovery will initiate the 15 year Development and Production Period, with the potential for two five year extensions.

The local population and government of Gedabek have been very supportive of the Company's activities. An underground copper mine was operated by Siemans Brothers between 1849 and 1917.

The Gedabek deposit remains open in a number of directions and the drilling is continuing to further expand the resource. The current resource does not include the dump areas created during the previous mining operations.

Limited adit sampling has been carried out at Gosha, confirming the presence of a large vein-like structure which contains grades and thicknesses, in line with the Soviet data. Assessment of this resource will continue through a combination of further sampling, geological modelling and drilling as required. Gosha is approximately 60 kilometres from Gedabek which would allow the ore at Gosha to be treated at Gedabek after being transported via truck from Gosha.

ORDUBAD

The drilling programme at Piyazbashi was completed in March of this year. The results of the drilling and the adit sampling provided confirmation of gold grade in the veins broadly in line with the Soviet data. The final resource modelling and assessment need to be completed and the classification is expected to improve. However, the Company's consultants, SRK Consulting have advised that the greater potential of the Gedabek property meant that focus for a first feasibility study should be switched to there. Piyazbashi will therefore not be a first priority for a feasibility study and progression towards early production as was envisaged in the Admission Document.

On completion of the drilling at Piyazbashi a diamond drill rig was moved to Shakardara. Shortly after a short drilling campaign there, it was considered that the rig would be better utilised by speeding up the programme at Gedabek and it was therefore moved to that property.

The drilling and assessment programme at Ordubad is now effectively on hold, but further work is required in order to obtain a full assessment of its potential.

RC DRILLING AT GEDABEK



WINTER DRILLING AT GEDABEK



CIL PLANT AND FINANCING

The contract to dismantle, containerise and store the CIL plant within the close proximity of the Mackay port in Australia was completed in the year and the plant was subsequently transported to Singapore.

Confirmation that the optimal treatment for the Gedabek ore is heap leaching allows the Group to sell the plant and use the proceeds for the capital requirement of the heap leaching facility. The Directors believe that given the current buoyant state of the gold mining sector, the sale of the plant will be profitable in relation to the original cost of the plant, (circa \$10million). The proceeds from the sale will be used to finance a large proportion of the required capital cost of developing Gedabek. Local or international banks will be targeted to source the balance of the funding requirement. The total capital costs for the Gedabek project are not expected to exceed \$25 million.

FINANCIAL RESULTS

The Group reported an audited loss for the year of \$4,428,073 (Eleven months ended 31 December 2005: \$2,644,333). The operating loss resulted from the charging of administrative expenses of \$5,186,053 (2005:\$3,457,520), an impairment provision against the exploration expenses incurred at Shakardara of \$185,103 (2005:\$nil) and crediting an exchange gain of \$361,957 (2005:\$208,112). The administrative expenses incorporate a charge for the cost of share-based payments of \$776,668 being the issue of options to Directors and management and the prior period results were restated to include a comparative charge of \$589,569, following the first time adoption of FRS 20. The comparative period was eleven months and included just five months post the IPO, at which point activity increased substantially.

The net interest credit in the period of \$581,152 (2005:\$613,400) arose from interest received on deposits.

Exploration and evaluation expenditure of \$6,017,138 (2005: \$1,626,651) was capitalised in the year, although a provision was raised for \$185,103 (2005:\$nil) against capitalised exploration expenditure at the Shakardara property as the Directors at this stage are unable to foresee that this property will enter commercial production. Further payments made to acquire, dismantle and containerise the CIL plant in Australia amounting to \$5,923,887 (2005:\$4,350,000) were capitalised in 2006.

At the year end the Group retained cash balances of \$6,354,102 (2005:\$21,345,703) and an asset with significant value in the CIL plant with the dismantling and containerisation complete and paid for.

BOARD AND MANAGEMENT

Anglo Asian continued to strengthen the Board with individuals who possess significant experience in the mining sector. I joined the Group in March 2006 as Chairman and Gordon Lewis joined as Chief Executive in July 2006. Gordon has a depth of operating experience in various locations throughout the world, where he has taken gold mining projects through from feasibility to construction and production. Gordon has continued to put in place an experienced management team based in Azerbaijan to continue the push towards early production at Gedabek. The Group has recruited in Azerbaijan a Chief Geologist, Financial Controller, Construction Manager and Procurement Manager. As part of our drive to secure further efficiencies, the Head Office was relocated in January 2007 from London to Baku, Azerbaijan.

During the year Robert Jeffcock and Charles Hancock resigned from the Board. I would like to take this opportunity to thank them for their contribution to Anglo Asian.

I would also like to take this opportunity to thank all of our employees for their hard work and dedication during the year which has put the Company in a much stronger position.

STRATEGY

It continues to be our aim to bring Gedabek to early production and then complete the exploration and development programme on our other properties. We have made great progress in this strategy and are well placed with an experienced team to achieve that goal.

I look forward to updating the shareholders with further progress through 2007.

GRAHAM MASCALL

CHAIRMAN
16 MARCH 2007

“Significant progress was made during 2006 after what was a difficult start for Anglo Asian following the IPO, Exploration was concentrated at the Gedabek property which culminated in a JORC compliant resource of 702,000oz of gold plus copper and silver credits.”

CHIEF EXECUTIVE'S REVIEW

HIGHLIGHTS

- ◆ JORC compliant resource for Gedabek
- ◆ Scoping study result for Gedabek determines optimal treatment is heap leaching
- ◆ CIL plant to be sold to part fund Gedabek
- ◆ Gosha likely to supplement Gedabek ore supply

INTRODUCTION

The Company continued its exploration in Azerbaijan during 2006, making good progress on several of the accessible resource areas allocated under the Production Sharing Agreement ("PSA"). Whilst focusing on the exploration of the Gedabek property for most of the year, adit cleaning and sampling continued at the nearby Gosha property. In addition, further adit cleaning, surface mapping and some limited drilling programs were completed on the Ordubad prospects.

The diamond drilling programme at Gedabek was highly successful and the Company was able to release a resource statement in November, confirmed by its principal consultants, SRK Consulting, showing Gedabek had potential for a mine development. In February 2007, the Company announced the results of a Scoping Study which suggested the optimal development route for Gedabek was open pit mining and heap leaching. This project should see the first significant gold production in Azerbaijan and place the Company in a strong position to develop its other prospects.

EXPLORATION PROGRAMME

During 2006, the Company made good progress at its nine accessible exploration properties. Exploration has been approached using adit and surface sampling, combined with limited diamond drilling programmes where these are warranted. Although no new major zones of mineralisation have been discovered, the Company has been able to identify and rank the properties which show potential for development.

PIYAZBASHI (ORDUBAD)

The potential of the ore system at Piyazbashi was first tested in late 2005 and early 2006. The drill-holes confirmed that the potential for this property is for a small tonnage, narrow vein deposit with marginal grades for underground mining. No extensions or wall-rock mineralisation was reported from these drill-holes. A total of 1,655 metres of diamond drilling, 428 metres of RC drilling and 2,844 metres of adit cleaning was completed on the property.

On the basis of these drilling results, only adit confirmation work was completed during the second half of the year. Unfortunately, adit collapses prevented follow up on some of the good intersections identified from the Russian work. Further exploration of the prospect has been placed on hold so the Company can focus on the mine development at Gedabek.

SHAKARDARA (ORDUBAD)

The results from adit 12 at Shakardara were reported in January 2006 and were unfortunately disappointing for gold. Due to the low grades of copper recorded by the Soviets in the deposit, it was decided to concentrate on other prospects in the Ordubad region.

Although some of the Russian adit values were reconfirmed, five diamond drill-holes to test lower elevations of the deposit showed no significant gold or copper grades.

MISDAG/AGYURT (ORDUBAD)

The Misdag prospect could only be accessed during the summer, for much of the year the area is covered with snow. Trench samples were taken mid year and surface sampling and mapping was done after the snow melt. Although some of the sampling matched the Russian data, the widths of mineralisation and sample grades were erratic.

To evaluate this prospect, 389 metres of adit and 663 metres of trench data were checked against the Russian information. The presence of mineralisation was confirmed, but the grades were not consistent compared with the previous Russian sampling. Further work is planned at Misdag.

The Agyurt deposit is a high grade, low tonnage gold target adjacent to the Misdag prospect. However, adit sampling and drilling of the deposit failed to confirm the Russian estimates. A total of 1,102 metres

GEDABEK OPEN PIT SITE



DISPENSING CORE FROM THE CORE BARREL



of diamond drilling was completed and 565 metres of adit was cleaned to assess this prospect.

SHALALA (ORDUBAD)

Access roads were cut to the Shalala copper prospect to confirm grades recorded in four of the Russian adits. Historical assay values included 43 m @ 0.96% Cu, 39.6 m @ 0.62% Cu and 107.8m @ 0.4% Cu. Work at Shalala was discontinued for several months, as adit access has proved difficult due to bad air conditions in the adits. A total of 730 metres of adit was cleaned at Shalala. Where the adits were sampled, the copper grades did not confirm the Russian data.

DIAKHCHAY (ORDUBAD)

The Diakhchay copper/gold/molybdenum prospect lies to the south west of the town of Ordubad. Grab samples have been taken during the year from accessible dumps and adits. Surface grab samples from an outcrop returned grades of up to 7.4% copper, 0.7 g/t gold and 310 ppm molybdenum.

This property is being further explored by adit cleaning, but access has also proved difficult due to bad air.

OTHER AREAS (ORDUBAD)

Several other copper/gold and copper/gold/molybdenum prospects have been identified within the existing PSA area. These include Kalaky, Gylanarlidara and Uchurdag. These prospects will be further explored to assess their potential for bulk tonnage.

GOSHA

At the Gosha gold prospect, the Company has been check sampling the grades reported by Soviet and Azeri geologists. Adits have been re-opened along two main structures, one thicker upper level structure striking east-west and a narrower vein structure striking north-south at a lower elevation. To date, results are encouraging, although further checking is in process to establish if a new set of assays match the previous sampling results.

The highest gold values at Gosha are at lower elevations and believed to be associated with kaolinite clay zones within the veins. These zones are extremely weak and representative sampling of these zones has proved difficult.

It is hoped that in 2007, sufficient reserves can be identified at Gosha to establish a standalone mine or alternatively provide supplementary feed for the Gedabek project.

GEDABEK

During the first quarter of 2006, a decision was made to focus the majority of the Company's exploration effort at Gedabek. As drilling at Ordubad was scaled down, the drill rigs were sent to Gedabek, where early drilling results were most encouraging.

The Gedabek mine was originally worked by the Siemens Company from Germany under an arrangement with Czarist Russian authorities. The mine was operated by Siemens between 1864 and 1917. Siemens were primarily interested in the sulphide copper orebodies lying beneath the Misdag mountain, overlooking the village. Siemens explored the property mostly by adit sampling. The underground workings were accessed by a total of ten adits with a combined length of 2,817 metres. The Gedabek copper mine is reported to have produced 56,000t of copper, and 134.16t of gold/silver doré from 1.72mt of ore mined during the period. Average metallurgical recovery was reported at 85%.

Intermittent exploration of the Gedabek deposit has taken place since the mine was closed. Azergyzil, a state owned enterprise, conducted a sampling programme between 1957 and 1959, identifying the primary copper potential in the area of the Gorelaya adit. During the 1990s, trenching and dump sampling took place and a drilling programme of sixteen diamond drill-holes was conducted in 1995. However, very poor core recoveries limited the usefulness of the results received. A second Azergyzil programme of 47 holes between 1998 and 2002 was more successful, prompting a revision of the potential ore resource at Gedabek. Whereas previous estimates quoted tonnages in excess of several hundred million tonnes of ore, the revised estimate in 2002 suggested a C2 and P1 resource for Gedabek of 19.2Mt at 1.44gpt Au, 0.36% Cu and 13.95g/t Ag, including mineralisation in the dumps.

“During the first quarter of 2006, a decision was made to focus the majority of the Company's exploration effort at Gedabek. As drilling at Ordubad was scaled down, the drill rigs were sent to Gedabek, where early drilling results were most encouraging.”

CHIEF EXECUTIVE'S REVIEW CONTINUED

GEDABEK CONTINUED

The drilling programme revealed a 1,500 metres long and 500 metres wide NNW-trending zone of silicification, with advanced argillic and sulphide alteration exposed at the surface. It is this zone, which remained open to the west and to some extent the north and south, which became the focus of the Company's resource drilling programme. The programme was completed in October 2006.

The Company has now completed drilling and received assay results from 15,507 metres of drilling in 129 diamond core and reverse circulation drill-holes on the Gedabek gold, copper and silver project in north-west Azerbaijan. The resource, tabulated at a cut-off of 0.3 g/t gold, is summarised in the table below:

TABLE 1. SRK RESOURCE ESTIMATE**Gedabek resource**

	Tonnes (millions)	Au g/t	Cu %	Ag g/t
Indicated	12.4	1.5	0.26	13.0
Inferred	3.2	1.0	0.16	9.1
Total	15.6	1.4	0.24	12.2

The following tables show the resource at additional gold cut-off grades:

Indicated

Au cutoff g/t	Tonnes (millions)	Au g/t	Cu %	Ag g/t
0.3	12.4	1.5	0.26	13.0
0.5	9.3	1.9	0.28	15.1
1.0	5.2	2.9	0.32	19.1

Inferred

Au cutoff g/t	Tonnes (millions)	Au g/t	Cu %	Ag g/t
0.3	3.2	1.0	0.16	9.1
0.5	2.4	1.2	0.17	10.4
1.0	1.1	1.8	0.19	13.5

NOTES

1. A gold grade shell was created based on 0.2 g/t gold, using two metre composites.
2. An indicator at 0.1% copper was used to define a copper grade shell.
3. Variograms were calculated for gold, copper and silver.
4. The drill-hole database was composited on five metre lengths with breaks at the grade shell. The assays were cut at 20 g/t gold, 135 g/t silver and 4% copper before compositing.
5. Gold and silver were estimated separately in the gold grade shell and copper was estimated in the copper grade shell.
6. The resource was calculated using volumes and grades inside the gold grade shell only.
7. Indicated blocks are those where the nearest composite is within 35 metres of the centre of the block. Inferred blocks are the remainder.
8. Mined out portions from Siemens previous copper mining were estimated and deducted from the overall tonnage within the grade shell.
9. g/t=grams per tonne; Au=gold; Cu=copper; Ag=silver.

A review of drilling completed at Gedabek since the resource announcement has identified several areas with potential for shallow extensions to the currently modeled resource. A programme of drilling was completed in February 2007 to test these areas and could outline additional resources which could be readily incorporated within the planned open pit.

DIAMOND CORE CUTTING AT GEDABEK**COPPER OXIDE MINERALS AT GEDABEK**

SCOPING STUDY

A Scoping Study was commenced in November 2006 on the Gedabek project.

The study, concluded in February 2007, showed that the optimal treatment for Gedabek ore is open pit mining and heap leaching. This is a lower capital and operating cost method to most alternative treatments. The completion of the study enabled the Company to submit a 'Notice of Discovery and its Commerciality', under the terms of the PSA, for the Gedabek property to the Azerbaijan Ministry of Ecology and Natural Resources later in the same month. The effect of this submission was to commence the 15 year period of development and production at Gedabek as defined in the PSA. A Feasibility Study is due for completion in April so that construction can begin in the summer of 2007.

The project is expected to produce gold at an annual rate of between 55,000 oz and 70,000 oz. Capital costs should not exceed \$25 million and cash operating costs are expected to be less than \$275 per oz. The mine will produce copper and silver as by-products.

To complete the study, the Company used SRK Consulting of Denver for the resource estimate, SGS Lakefield from Canada for the metallurgical testwork and Knights Piesold for the initial pad design and geotechnical aspects. Various other individual consultants were used for metallurgy, economics, mine planning and environmental. The majority of these consultants have been retained for the feasibility work.

It is planned to commission a laboratory at Gedabek during the first half of 2007 and train local staff in its operation. Exploration samples will be prepared at this laboratory, saving substantially in assaying costs. The laboratory is fitted with a fire assay facility and will be expanded to enable some metallurgical testwork to be done on site.

INFRASTRUCTURE

The Company has substantially upgraded its Baku office facilities during 2006. The Nakhchivan branch office was downgraded to a smaller facility and the camp was retained at Keleki in Ordubad district to support the on-going exploration programmes.

During the first half of 2007, it is planned to establish a 60-man camp at Gedabek for the feasibility and construction phases. An old hotel has been rented in the centre of town and converted to offices and accommodation for the geological team.

CIL PLANT

The scoping study determined that the CIL plant purchased by the Company in 2005 was not the preferred option for the Gedabek operation. During the third quarter of 2006, the containerised plant was moved from Mackay in Queensland, Australia to Singapore, where it was held in storage pending the outcome of the scoping study.

The plant will be sold in its current state and the proceeds will assist with the funding of the heap leach project at Gedabek. It is expected in the current market, at least all costs associated with the plant, including its dismantling, transport and storage costs, will be recovered by the sale.

STAFFING

A decision was taken during the year to close the London office and develop an operating team under the leadership of the Chief Executive in Baku. A Chief Geologist and a Financial Controller were appointed to the local team in Azerbaijan during the fourth quarter of 2006. The Company also employs a Chief Engineer and has been fortunate in recruiting some reliable senior Azeri staff, particularly at the two operating sites at Gedabek and Keleki.

EXAMINING DRILL CORE AT GEDABEK



ADIT CLEANING AT ORDUBAD



The Group reported an audited loss for 2006 of \$4,428,073 (2005:\$2,644,333 for the eleven month period to 31 December 2005). The operating loss resulted from administration expenses of \$5,186,053 (2005:\$3,457,520) and a provision for impairment of capitalised exploration expenditure on the Shakardara property of \$185,103 (2005:nil), offset by exchange gains of \$361,957 (2005:\$208,112) and net interest income of \$581,126 (2005:\$605,075).

The administrative expenses have been incurred in both Azerbaijan and London. Since the year end the London office has been closed and the accounting function has been transferred to Azerbaijan. The administration costs for the full year are compared to an eleven month period in 2005, which incorporates just five months of the post IPO period. The Group has also adopted FRS 20 share-based payment for the first time which results in a charge in 2006 of \$776,668 and the 2005 results have been restated to include a charge of \$589,569.

The Directors, when considering the carrying value of the intangible assets, decided that a provision should be made against the capitalised exploration expenses relating to Shakardara following the disappointing drilling results at this property. The provision amounted to \$185,103.

The net interest credit in the period arose from the interest received on deposits.

As there was no income generated in the Group, the tax charge for the period was nil and an additional deferred tax asset was created in the form of losses to carry forward in both the UK and Azerbaijan. The deferred tax assets are not recognised in the balance sheet.

The resulting loss for the year is \$4,428,073 (2005:\$2,644,333).

Exploration and evaluation expenditures of \$6,017,138 (2005:\$1,626,651) were incurred in the year and a further \$5,923,887 spent on the CIL plant in the form of capital payments, dismantling, containerising and freight costs. The plant was dismantled from site in Queensland (Australia) and transported to its current location in the trade free zone of Jurong port Singapore.

Following the results of the Gedabek scoping study a decision has been made to sell this plant and use the proceeds to develop a heap leach facility at Gedabek. The Company is in the process of appointing an agent.

The Group retained cash balances of \$6,354,102 at the year end.

The Board reviews and agrees policies for managing financial risks.

COMMODITY PRICE RISK

The Group has not yet commenced commercial mining and does not hold any financial instruments to hedge the commodity price risk on its expected future production. The Board will review this exposure prior to any mines becoming operational.

FOREIGN CURRENCY RISK

The Group reports in US dollars and a large proportion of its business is conducted in US dollars. It also conducts business in Australian dollars, Azerbaijan manats and UK sterling.

LIQUIDITY/INTEREST RATE RISK

Shortly after the IPO the only debt in the Group was repaid and there is no debt as at 31 December 2006. Board approval is required for all new borrowing facilities. The Group has not used any interest rate swaps or other instruments to manage its interest rate profile during 2006.

At the year end the Group had cash on short-term deposit. Short-term deposits during the period included overnight, one week and monthly up to 12 months.

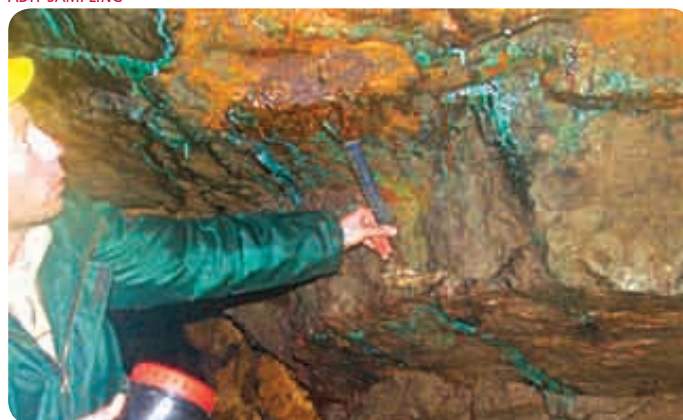
MARKET RISK

Exposure to interest rate fluctuations is minimal as the Group currently has no debt. Interest rates on sterling and US dollar deposits are relatively stable and the impact of a fluctuation in the interest rate on interest earned on the Group's short-term deposits is likely to be minimal.

DRIVING ON ACCESS ROAD



ADIT SAMPLING



BOARD OF DIRECTORS

MR GRAHAM MASCALL

NON-EXECUTIVE CHAIRMAN, AGE 60

APPOINTED 13 MARCH 2006

Over the course of his career, Mr Mascall has worked as an executive for a number of the world's largest mining and mining finance companies. The list of companies includes Billiton and BHP Billiton, Deutsche Morgan Grenfell, Outokumpu Metals & Resources and Barclays Bank. He has a degree in Mining Engineering from the Camborne School of Mines, as well as a Master of Engineering degree in Mineral Economics from McGill University in Canada. He also holds a number of directorships in the mining sector.

MR REZA VAZIRI

PRESIDENT, AGE 53

Mr Vaziri served at the Ministry of the Imperial Court of the Shah of Iran before moving to the US. Mr Vaziri was the initial founder of the US Azerbaijan Chamber of Commerce ("USACC") and has been appointed chairman for life. In his role with USACC, he has arranged and participated in a number of economic delegations to Azerbaijan and played a key role in bringing US investment to the country.

MR GORDON LEWIS

CHIEF EXECUTIVE, AGE 58

APPOINTED 1 JULY 2006

Over the course of his career, Mr Lewis has worked as a senior mining executive on a significant number of projects across a range of emerging markets. He previously managed Avocet Mining PLC's Indonesian operations, including taking the North Lanut gold mine from in-fill drilling through to production and overseeing the start up of Malaysia's largest gold mine. He has also run various mining operations for RTZ and, more recently, was Chief Operating Officer of Alexander Mining PLC. Mr Lewis is a Member of the Australian Institute of Mining and Metallurgy and holds a First Class Mine Manager's Certificate, South Australia.

MR RICHARD ROUND FCCA

FINANCE DIRECTOR, AGE 48

Mr Round is a Fellow of the Chartered Association of Certified Accountants. He began his career with British Coal in 1977. In 1987 Mr Round joined Ferrum Holdings plc, becoming Group Finance Director in 1993. In 1995 Mr Round became Finance Director of Consolidated Supply Management Limited, an international oilfield logistics group operating primarily in Latin America and the Former Soviet Union, including Azerbaijan and Kazakhstan. In 2001, Mr Round became Financial Director for the Mining (Scotland) Group, the largest opencast coal mining Company in the UK, before joining Anglo Asian as Finance Director in September 2005. Mr Round is also Finance Director for Cambrian Mining PLC.

DR ROSS BHAPPU

NON-EXECUTIVE DIRECTOR, AGE 46

Dr. Bhappu is a Partner with Resource Capital Funds and has over 20 years' experience in the mining industry working for both senior and junior mining companies. Prior to joining Resource Capital Funds in early 2001, he was Chief Executive Officer of a start-up copper mining Company, GTN Copper Corporation. Dr. Bhappu holds a Ph.D. in Mineral Economics from the Colorado School of Mines and B.S. and M.S. degrees in Metallurgical Engineering from the University of Arizona.

THE RT HON TIM EGGAR

NON-EXECUTIVE DIRECTOR, AGE 55

Mr Eggar began his career with Hambros Bank. In 1979, he was elected as a Member of the UK Parliament and between 1985 and 1996 held a number of ministerial positions, including Minister for Energy. He has had a number of senior board positions including Chairman of AGIP UK Ltd, MW Kellogg Ltd, and Chief Executive of Monument Oil & Gas plc. From 2000 to 2004, he was Head of ABN AMRO's Global Energy Corporate Finance Group. He is currently Chairman of Harrison Lovegrove and Indago Petroleum PLC, a non-executive Director of Expro Group International plc and was the Chairman of the Anglo-Azeri Society.

GOVERNOR JOHN H SUNUNU

NON-EXECUTIVE DIRECTOR, AGE 67

Governor Sununu received a Ph.D. from Massachusetts Institute of Technology and taught engineering at Tufts University for 16 years. He served three terms as the governor of New Hampshire before President George H.W. Bush appointed him Chief of Staff in 1989, as a position that he held until March 1992. After his tenure as Chief of Staff, he co-hosted CNN's Crossfire, ran an engineering firm, and then in 2004 served as the visiting Roy M. and Barbara Goodman Family Professor of Practice in Public Service at the Kennedy School of Government at Harvard University. Governor Sununu is a former partner in Trinity International Partners, a private financial firm, and currently serves as President of JHS Associates, Ltd.

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The Directors submit their report and the audited financial statements of Anglo Asian Mining PLC for the year to 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the exploration and development of gold and copper projects in Azerbaijan.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The Group's financial performance for the year was in line with Directors' expectations. The Group loss after taxation for the year to 31 December 2006 amounted to \$4,428,073 (eleven month period to 31 December 2005: \$2,644,333).

The record of the business during the year and an indication of likely further developments may be found in the Chairman's statement, (page 2) the Chief Executive's review (page 4) and the finance review (page 8).

BUSINESS REVIEW

The financing risks are discussed on page 3 of the Chairman's statement. Other risks are discussed in the finance review on page 8.

SHARE CAPITAL

Details of the movements in share capital during the period are set out in note 18 to the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- ◆ select suitable accounting policies and then apply them consistently;
- ◆ make judgements and estimates that are reasonable and prudent;
- ◆ state whether applicable accounting standards have been followed; and
- ◆ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

DIRECTORS

The current Directors and their biographies are set out on page 9.

DIRECTORS INTERESTS

The Directors in office during the period under review and their interests in ordinary shares of the Company at 31 December 2006 and 31 December 2005 were:

Directors	31 December 2006 Number of shares	31 December 2005 Number of shares
Graham Mascall (appointed 13 March 2006)	—	—
Reza Vaziri	28,771,200	28,771,200
Robert Jeffcock (resigned 23 August 2006)	N/A	3,744,200
Gordon Lewis (appointed 1 July 2006)	—	—
Richard Round	—	—
Ross Bhappu	—	—
Tim Eggar	19,500	19,500
Charles Hancock (resigned 31 December 2006)	N/A	3,216,600
John Sununu	9,595,400	9,595,400

DIRECTORS' REPORT CONTINUED

DIRECTORS INTERESTS CONTINUED

The interests of the Directors, financial advisers and staff in options to subscribe for ordinary shares of the Company were:

	Exercise price (p)	Latest exercise date	As at 1 January 2006	Granted during the year	Lapsed in the year	As at 31 December 2006
DIRECTORS						
Graham Mascal	39.5	13 March 2016	—	1,487,577	—	1,487,577
	55.0	13 March 2016	—	495,858	—	495,858
Gordon Lewis	42.5	1 July 2016	—	1,487,577	—	1,487,577
Richard Round	77.0	26 July 2015	649,350	—	(216,450)	432,900
	42.5	12 April 2016	—	495,859	—	495,859
Ross Bhappu	42.5	12 April 2016	—	123,965	—	123,965
Tim Eggar	77.0	26 July 2015	743,788	—	—	743,788
RELATED PARTY						
Anglo-Suisse Capital Limited**	*77.0	26 July 2008	991,718	—	—	991,718
OTHERS						
	77.0	16 October 2007	991,718	—	(661,145)	330,573
	*77.0	26 July 2008	991,718	—	—	991,718
	97.0	11 August 2015	247,925	—	—	247,925
	42.5	12 April 2016	—	59,503	—	59,503
			4,616,217	4,150,339	(877,595)	7,888,961

All options can be exercised at various dates ranging from 26 January 2006 to 1 July 2009, other than those marked * which can be exercised from date of grant.

** Anglo-Suisse Capital Limited is a Company controlled by Charles Hancock.

DIRECTORS INDEMNITIES

The Company has made qualifying third party indemnity provision for the benefit of its Directors which were made during the year and remain in force at the date of this report.

GOING CONCERN

The Directors consider that the Group has or will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

CHARITABLE AND POLITICAL CONTRIBUTIONS

There were no charitable or political contributions made during the period.

SUBSTANTIAL SHAREHOLDINGS

The Company has been informed that on 1 March 2007 the following shareholders held substantial holdings in the issued ordinary shares of the Company:

Shareholders	Number of ordinary shares	Holding %
Reza Vaziri	28,771,200	29.0
John Sununu	9,595,400	9.7
Resource Capital Fund III L.P.	6,200,000	6.3
FMR Corp	4,744,400	4.8
Limelight Industrial Developments Limited	4,038,600	4.1
Colby Mining Limited	3,744,200	3.8
Pendragon Capital LLP	3,722,000	3.8
Charles Hancock	3,216,600	3.2

PAYMENT POLICY

It is the Group's policy to pay suppliers in accordance with agreed terms, provided the supplier has also complied with agreed terms and conditions. The average creditor days is 35.

AUDITORS

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- ◆ so far as the Director is aware there is no relevant audit information of which the Company's auditors are unaware; and
- ◆ the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 2342A of the Companies Act 1985.

ANNUAL GENERAL MEETING

The Company held an Annual General Meeting on 26 January 2006 and therefore will hold its next Annual General Meeting on 25 April 2007 at which this report and financial statements will be presented along with those for the eleven month period to 31 December 2005. Notification of the meeting has been sent along with this report.

By order of the Board

RICHARD ROUND

SECRETARY

16 MARCH 2007

CORPORATE GOVERNANCE

INTRODUCTION

Although the rules of AIM do not require the Company to comply with the Combined Code on Corporate Governance ("the Code"), the Company fully supports the principles set out in the Code and will attempt to comply wherever possible, given both the size and resources available to the Company. Details are provided below of how the Company applies the Code.

THE BOARD

The Board of Directors currently comprises three Executive Directors, four Non-executive Directors, one of whom is the Chairman. The roles of Chairman and Chief Executive are split in line with recommended policy.

The Board meets regularly throughout the year and receives a Board pack comprising individual reports from each of the Executive Directors together with any other material deemed necessary for the Board to discharge its duties. The Board also conducts telephone Board meetings as issues which require Board attention arise. It is the Board's responsibility to formulate, review and approve the Group's strategy, budgets and major items of expenditure. The Board sets the Group's objectives and policies and monitors their implementation by the executive team.

The Board considers two of the Non-executive Directors other than the Chairman to be independent and Tim Eggar to be the Senior Independent Non-executive Director.

AUDIT COMMITTEE

The Audit Committee comprises Tim Eggar and John Sununu and is scheduled to meet at least twice a year. The external auditors attend the meetings and the Chief Executive and Finance Director attend on invitation. It is the Audit Committee's role to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditors of the Group.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises Graham Mascal, Tim Eggar and John Sununu and meets as required. It is the Remuneration Committee's role to establish a formal and transparent policy on executive remuneration and to set remuneration packages for individual Directors.

NOMINATION COMMITTEE

The Nomination Committee currently comprises Graham Mascal, Tim Eggar, John Sununu and Gordon Lewis. It is the role of the Nomination Committee to review and consider the Board structure and composition and meets as required to consider and make recommendations on the appointment of Directors to the Board.

SHAREHOLDER RELATIONS

The Company meets with its institutional shareholders and analysts as appropriate and encourages communication with private shareholders via the AGM. In addition, the Company uses the annual report and accounts, interim statement and web site (www.aamining.com) to provide further information to shareholders.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. For each year, on behalf of the Board, the Audit Committee reviews the effectiveness of these systems. This is achieved primarily by considering the risks potentially affecting the Group and discussions with the external auditors.

The Group does not currently have an internal audit function due to the small size of the administrative function.

A comprehensive budgeting process is completed once a year and is reviewed by the Board and where appropriate revised forecasts are prepared and also reviewed by the Board. The Group's results, as compared against budget, are reported to the Board on a monthly basis and discussed in detail at each meeting of the Board.

The Group maintains appropriate insurance cover in respect of legal actions against the Directors as well as against material loss or claims against the Group and the Board reviews the adequacy of the cover regularly.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANGLO ASIAN MINING PLC

We have audited the Group and individual Company financial statements (the "financial statements") of Anglo Asian Mining PLC for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and individual Company balance sheets, the consolidated cash flow statement and the related notes 1 to 26. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' report is consistent with the financial statements. The information given in the Director's report includes that specific information presented in the Chairman's statement on pages 2 and 3, on the Chief Executive's review on page 4 and the finance review on page 8, that is cross referenced from the business review section of the Director's report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- ◆ the financial statements give true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2006 and of the Group's loss for the year then ended;
- ◆ the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- ◆ the information given in the Directors' report is consistent with the financial statements.

DELOITTE & TOUCHE LLP

CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

LONDON

16 MARCH 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Year ended 31 Dec 2006 US\$	Restated (Note 1) Period from 1 Feb 2005 to 31 Dec 2005 US\$
TURNOVER			
Provision for impairment of capitalised exploration and evaluation expenditure		(185,103)	—
Administration expenses	5	(5,186,053)	(3,457,520)
Exchange gain		361,957	208,112
OPERATING LOSS			
Interest receivable and similar income	2	(5,009,199)	(3,249,408)
Interest payable and similar charges	3	581,152	613,400
	4	(26)	(8,325)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			
Tax on loss on ordinary activities	5	(4,428,073)	(2,644,333)
	8	—	—
LOSS FOR THE YEAR/PERIOD			
	21	(4,428,073)	(2,644,333)
Statutory basic and diluted loss per ordinary share (cents)	9	(4.47)	(4.09)
Pro forma basic and diluted loss per ordinary share (cents)	9	(4.47)	(2.67)

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year/period stated above and their historical cost equivalents.

All results above are derived from continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 Dec 2006 US\$	Restated (Note 1) Period from 1 Feb 2005 to 31 Dec 2005 US\$
Loss for the year/period		(2,054,764)
Share-based payment charge		(589,569)
Loss for the year/period restated	(4,428,073)	(2,644,333)
Exchange difference	(175,616)	(69,184)
TOTAL RECOGNISED GAINS AND LOSSES	(4,603,689)	(2,713,517)

	Note	Year ended 31 Dec 2006 US\$	Restated (Note 1) Period from 1 Feb 2005 to 31 Dec 2005 US\$
FIXED ASSETS			
Intangible assets	10	54,383,948	48,551,913
Tangible assets	11	11,303,637	453,184
TOTAL FIXED ASSETS		65,687,585	49,005,097
CURRENT ASSETS			
Debtors – amounts falling due within one year	14	170,607	5,246,275
Cash at bank	15	6,354,102	21,345,703
		6,524,709	26,591,978
CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(1,240,453)	(798,213)
NET CURRENT ASSETS		5,284,256	25,793,765
NET ASSETS	2	70,971,841	74,798,862
CAPITAL AND RESERVES			
Called up share capital	18	1,782,605	1,782,605
Share premium account	21	30,279,301	30,279,301
Merger reserve	21	46,206,390	46,206,390
Profit and loss account	5, 21	(7,296,455)	(3,469,434)
CAPITAL EMPLOYED		70,971,841	74,798,862

The notes on pages 20 to 32 form part of the financial statements.

These financial statements were approved by the Board of Directors on 16 March 2007 and were signed on its behalf by:

GORDON LEWIS
CHIEF EXECUTIVE

	Note	Year ended 31 Dec 2006 US\$	Restated (Note 1) Period from 1 Feb 2005 to 31 Dec 2005 US\$
FIXED ASSETS			
Tangible assets	11	10,442,520	5,283
Investments	12	1,325,007	1,325,007
TOTAL FIXED ASSETS		11,767,527	1,330,290
CURRENT ASSETS			
Debtors – amounts falling due within one year	14	13,345,427	9,771,966
Cash at bank	15	6,236,950	21,303,811
		19,582,377	31,075,777
CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(916,465)	(440,476)
NET CURRENT ASSETS		18,665,912	30,635,301
NET ASSETS		30,433,439	31,965,591
CAPITAL AND RESERVES			
Called up share capital	18	1,782,605	1,782,605
Share premium account	21	30,279,301	30,279,301
Profit and loss account	21	(1,628,467)	(96,315)
CAPITAL EMPLOYED		30,433,439	31,965,591

The notes on pages 20 to 32 form part of the financial statements.

These financial statements were approved by the Board of Directors on 16 March 2007 and were signed on its behalf by:

GORDON LEWIS
CHIEF EXECUTIVE

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 Dec 2006 US\$	Period from 1 Feb 2005 to 31 Dec 2005 US\$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	23	(2,906,521)	(7,461,090)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received	3	581,152	613,400
Interest paid	4	(26)	(8,325)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		581,126	605,075
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS			
Purchase of tangible fixed assets		(6,649,068)	(486,097)
Exploration and evaluation expenditure	10	(6,017,138)	(1,626,651)
Purchase of subsidiary undertaking		—	(2,000,000)
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS		(12,666,206)	(4,112,748)
NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		(14,991,601)	(10,968,763)
FINANCING			
Issue of ordinary shares, net of expenses		—	30,736,901
Shares issued for cash in subsidiary		—	663,539
Repayment of loans		—	(58,280)
(DECREASE)/INCREASE IN CASH FOR THE YEAR/PERIOD		(14,991,601)	20,373,397
RECONCILIATION OF CASH BALANCES			
Cash at start of year		21,345,703	972,306
(Decrease)/increase in cash for the year/period		(14,991,601)	20,373,397
CASH AT END OF THE YEAR/PERIOD		6,354,102	21,345,703

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES AND BASIS OF PREPARATION**BASIS OF PREPARATION**

Anglo Asian Mining PLC (“Anglo Asian” or the “Company”) was incorporated on 9 September 2004 and its ordinary shares were listed on the AIM market of the London Stock Exchange on 29 July 2005 (the “Listing”) having become the new parent company of Anglo Asian Operations Limited Group on 24 June 2005. Anglo Asian Operations Limited was incorporated on 5 February 2004.

The Directors believe that it is necessary to prepare results on the basis that the Anglo Asian Group had existed from the date of incorporation of Anglo Asian Operations Limited. The Directors believe that this information reflects the ongoing operations of the group more clearly. The combination of Anglo Asian with the Anglo Asian Operations Group has been accounted for as a group reconstruction under the provisions of FRS6 (“Mergers & Acquisitions”) and is presented as if the Company had been the holding company and intermediate holding company, respectively, of the group for each period presented.

The consolidated financial information for the Group has been prepared under the historical cost convention and in accordance with applicable law and United Kingdom Accounting Standards.

The principal accounting policies are set out below:

ACCOUNTING PERIOD

The Company has drawn up its accounts for the period from 1 January 2006 to 31 December 2006.

The comparative period accounts for 31 December were drawn up for the eleven month period from 1 February 2005 to 31 December 2005 following the change in the accounting reference date from 31 January to 31 December.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 December each year.

The consolidated financial information incorporates the financial statements of the Company and all of its subsidiaries, being the companies that it controls. This control is normally evidenced when the group is able to govern a company’s financial and operating policies so as to benefit from its activities or where the group owns, either directly or indirectly, the majority of a company’s equity voting rights.

The results of subsidiaries acquired or sold during the year are consolidated for the periods from, or to, the date on which control passed. Acquisitions are accounted for under the acquisition method.

Excess purchase consideration, being the difference between the fair value of the consideration given and the fair value of the identifiable assets and liabilities acquired, is capitalised as an asset on the balance sheet.

To the extent that such excess purchase consideration relates to the acquisition of mining properties and leases, that amount is capitalised as mining rights within intangible fixed assets. Provision is made for any impairment.

The Company has not presented its own profit and loss account as permitted by Section 230(4) of the Companies Act 1985. The Company’s result for the period is disclosed in note 20.

DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

All directly related expenditure associated with mineral exploration and investments is capitalised on a project-by-project basis, pending determination of the feasibility of the project.

Costs incurred include appropriate technical and administrative expenses but not general overheads. If an exploration project is successful, the related expenditures will be transferred to mining assets and amortised over the estimated life of the commercial ore reserves on a unit of production basis. Where a project is relinquished, abandoned, or is considered to be of no further commercial value to the Group, the related costs are written off.

The recoverability of deferred exploration costs is dependent upon the discovery of economically recoverable ore reserves, the ability of the group to obtain necessary financing to complete the development of ore reserves and future profitable production or proceeds from the disposition thereof.

TANGIBLE FIXED ASSETS

Depreciation is provided on cost in annual instalments over the estimated useful lives of assets which are reviewed annually. The rates of depreciation are as follows:

Leasehold improvements	Over life of lease
Plant, equipment and motor vehicles	25% Decreasing balance
Office and computer equipment	25% Decreasing balance

The depreciation policy was changed prospectively in 2006 in the year to bring the charge into line with the method prescribed in the Production Sharing Agreement. The prior period was based on straight-line and the current year is on a decreasing balance method. If the Company had continued to use the straight-line method the charge for the year would have been \$11,442 greater.

1 ACCOUNTING POLICIES CONTINUED**LEASED ASSETS**

Rentals where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on a straight-line basis over the period of the lease.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are not recognised in respect of timing differences relating to tax losses where there is insufficient evidence that the asset will be recovered.

PENSION CONTRIBUTIONS

The Group does not operate a pension scheme for the benefit of its employees but instead makes contributions to their personal pension policies. The contributions due for the period are charged to the profit and loss account.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

FINANCIAL INSTRUMENTS

Income and expenditure arising on financial instruments are recognised on an accruals basis and are credited or charged to the profit and loss account in the financial period to which they relate.

SHARE-BASED PAYMENTS

The Group has applied the requirements of FRS 20 Share-based Payment from 1 January 2006. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006. Application of this standard has been applied retrospectively.

This has resulted in a charge of \$589,569 to the restated 2005 loss. The impact of this standard in the year ended 2006 was a charge of \$776,668 to the profit and loss. The adoption of FRS 20 had no impact on total reserves as there is corresponding entry to retained earnings.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black-Scholes pricing model. The expected lives used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

2 SEGMENTAL REPORTING

	Year ended 31 Dec 2006 US\$	Restated (Note 1) Period from 1 Feb 2005 to 31 Dec 2005 US\$
OPERATING LOSS		
By geographical market		
Azerbaijan	(1,487,121)	(1,503,559)
UK	(3,552,078)	(1,745,849)
Total	(5,009,199)	(3,249,408)
NET INTEREST INCOME		
By geographical market		
UK	581,126	605,075
Total	581,126	605,075
NET OPERATING ASSETS		
By geographical market		
Azerbaijan	50,895,611	46,362,549
UK	20,076,230	28,436,313
Total	70,971,841	74,798,862

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 Dec 2006 US\$	Period from 1 Feb 2005 to 31 Dec 2005 US\$
Interest receivable from short-term bank deposits	581,152	613,400

4 INTEREST PAYABLE

	Year ended 31 Dec 2006 US\$	Period from 1 Feb 2005 to 31 Dec 2005 US\$
Bank interest	26	994
Interest payable on loans	—	7,331
Total	26	8,325

5 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 Dec 2006 US\$	Period from 1 Feb 2005 to 31 Dec 2005 US\$
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Audit	91,357	109,754
Other services – fees paid to the auditor and its associates	29,458	46,925
Depreciation on tangible fixed assets – owned	148,615	38,004
Provision for impairment of exploration and development expenditure	185,103	—
Share-based payment charge	776,668	589,569
Hire of other assets	—	214,779

6 REMUNERATION OF DIRECTORS

	Year ended 31 Dec 2006						
	Salary US\$	Bonus US\$	Consultancy US\$	Fees US\$	Pension US\$	Benefits US\$	Total US\$
Ross Bhappu ^a	—	—	—	—	—	—	—
Tim Eggar	—	—	—	44,160	—	—	44,160
Charles Hancock ^b	121,440	—	—	—	11,040	—	132,480
Robert Jeffcock	—	—	27,145	17,732	—	—	44,877
Gordon Lewis ^b	163,261	—	—	—	13,800	10,106	187,167
Graham Mascall	—	—	—	94,167	—	—	94,167
Richard Round ^b	234,217	27,600	—	—	23,422	2,581	287,820
John Sununu	—	—	—	35,573	—	—	35,573
Reza Vaziri	—	—	287,268	26,987	—	—	314,255
TOTAL	518,918	27,600	314,413	218,619	48,262	12,687	1,140,499

a) Fees of \$26,987 in relation to the services of Ross Bhappu as a Non-executive Director for the period to 31 December 2005 are payable to RCF Management LLC a Company related to but not controlled by Ross Bhappu.

b) There were three Directors in a defined contribution scheme during the period (2005: two).

c) The remuneration for Charles Hancock and Robert Jeffcock has now terminated.

6 REMUNERATION OF DIRECTORS CONTINUED

	Period from 1 Feb 2005 to 31 Dec 2005						
	Salary US\$	Bonus US\$	Consultancy US\$	Fees US\$	Pension US\$	Benefits US\$	Total US\$
Ross Bhappu ^a	—	—	—	—	—	—	—
Tim Eggar	—	—	—	18,229	—	—	18,229
Charles Hancock ^b	87,500	—	—	—	8,750	—	96,250
Robert Jeffcock	—	—	41,125	10,938	—	—	52,063
Richard Round ^b	60,454	—	—	—	6,046	14,000	80,500
John Sununu	—	—	—	14,583	—	—	14,583
Reza Vaziri	—	—	331,425	10,938	—	—	342,363
TOTAL	147,954	—	372,550	54,688	14,796	14,000	603,988

a) Fees of \$4,375 in relation to the services of Ross Bhappu as a Non-executive Director for the period to 31 December 2005 are payable to RCF Management LLC a Company related to not controlled by Ross Bhappu.

b) There were two Directors in a defined contribution scheme during the year (2005: nil).

7 STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including Directors) during the year/period, analysed by category, was as follows:

	Year ended 31 Dec 2006 Number	Period from 1 Feb 2005 to 31 Dec 2005 Number
Management and administration	41	22
Processing and exploration	139	47
Other	24	8
Total	204	77

The aggregate payroll costs of these persons were as follows:

	US\$	US\$
Wages and salaries	1,823,970	1,482,100
Social security costs	233,779	69,823
Pension costs	48,415	25,296
Total	2,106,164	1,577,219
Less: salary costs capitalised as exploration and evaluation expenditure	(504,819)	(448,013)
Total employee costs	1,601,345	1,129,206

The average number of persons employed by the Company including Directors during the period was 13 (2005: seven). The total employee costs relating to those employees in 2006 was \$831,435 (2005: \$254,830).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 TAXATION

	Year ended 31 Dec 2006 US\$	Restated (Note 1) Period from 1 Feb 2005 to 31 Dec 2005 US\$
Analysis of charge in period		
UK CORPORATION TAX		
Current tax on charge for the period	—	—
FOREIGN TAX		
Current tax on charge for the period	—	—
Tax on loss on ordinary activities	—	—
FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT PERIOD		
Current tax reconciliation		
Loss on ordinary activities before tax	(4,428,073)	(2,054,764)
Tax credit on loss on ordinary activities at standard UK corporation tax rate of 30%	1,328,422	616,429
Effects of:		
Prior year adjustment	335,237	—
Expenses not deductible for tax purposes	(462)	346,696
Short-term timing differences	—	(23,836)
Creation of unrecognised tax losses	(1,806,185)	(986,705)
Rate differences	142,988	47,416
Current tax credit for period (see above)	—	—

FACTORS THAT MAY AFFECT FUTURE CURRENT AND TOTAL TAX CHARGES

The unrecognised deferred tax asset (note 17) may affect the future current and total tax charges if the recoverability of the deferred tax assets is considered likely in future periods.

9 LOSS PER SHARE

The statutory loss per share has been based on a weighted average number of shares in issue of 99,171,800 (2005: 64,674,982).

The pro forma loss per share ("EPS") calculation, has assumed that the number of ordinary shares in issue immediately after listing (being 99,171,800) had been in issue from 5 February 2004.

The Directors believe that this pro forma EPS provides a more meaningful comparison of the Group's ongoing business than using the statutory EPS which would only reflect shares issued at the date of listing. Basic and dilutive EPS are the same because the only outstanding share options are anti-dilutive as the Group has made a loss.

10 INTANGIBLE ASSETS

EXPLORATION AND EVALUATION EXPENDITURE

	Piyazbashi US\$	Shakardara US\$	Misdag/ Agyurt US\$	Shalala US\$	Diakhchay US\$	Gedabek US\$	Gosha US\$	Total US\$
COST								
As at 1 January 2006	1,098,474	41,658	41,658	—	—	270,255	174,606	1,626,651
Additions during the period	1,012,812	143,445	539,274	58,663	39,264	4,039,859	183,821	6,017,138
Provision for impairment	—	(185,103)	—	—	—	—	—	(185,103)
AS AT 31 DECEMBER 2006	2,111,286	—	580,932	58,663	39,264	4,310,114	358,427	7,458,686

MINING RIGHTS

COST

As at 31 December 2005	46,925,262
AS AT 31 DECEMBER 2006	46,925,262

TOTAL

Total at 31 December 2005	48,551,913
TOTAL AT 31 DECEMBER 2006	54,383,948

There are no intangible fixed assets in the Company.

11 TANGIBLE FIXED ASSETS

Group	Temporary buildings US\$	Plant and equipment US\$	Motor vehicles US\$	Office equipment US\$	Leasehold improvements US\$	Assets held for disposal US\$	Assets under construction US\$	Total US\$
COST								
As at 1 January 2006	84,286	82,391	58,516	141,180	124,815	—	—	491,188
Additions	—	34,061	69,336	220,322	239,813	10,273,887	161,649	10,999,068
AS AT 31 DECEMBER 2006	84,286	116,452	127,852	361,502	364,628	10,273,887	161,649	11,490,256
ACCUMULATED DEPRECIATION								
As at 1 January 2006	(2,107)	(10,298)	(7,314)	(16,725)	(1,560)	—	—	(38,004)
Charge for year	(6,322)	(22,282)	(41,940)	(67,477)	(10,594)	—	—	(148,615)
AS AT 31 DECEMBER 2006	(8,429)	(32,580)	(49,254)	(84,202)	(12,154)	—	—	(186,619)
NET BOOK VALUE								
As at 31 December 2005	82,179	72,093	51,202	124,455	123,255	—	—	453,184
AS AT 31 DECEMBER 2006	75,857	83,872	78,598	277,300	352,474	10,273,887	161,649	11,303,637

The asset held for disposal relates to a CIL plant. Stage payments amounting to \$4,350,000 were made in 2005 and were allocated to prepayments in that year. The above additions of \$10,999,068 include the 2005 payment and \$6,649,068 was paid in 2006.

Company

COST								
As at 1 January 2006	—	—	—	5,283	—	—	—	5,283
Additions	—	—	—	14,787	—	10,273,887	154,615	10,443,289
AS AT 31 DECEMBER 2006	—	—	—	20,070	—	10,273,887	154,615	10,448,572
ACCUMULATED DEPRECIATION								
As at 1 January 2006	—	—	—	—	—	—	—	—
Charge for year	—	—	—	(6,052)	—	—	—	(6,052)
AS AT 31 DECEMBER 2006	—	—	—	(6,052)	—	—	—	(6,052)
NET BOOK VALUE								
As at 31 December 2005	—	—	—	5,283	—	—	—	5,283
AS AT 31 DECEMBER 2006	—	—	—	14,018	—	10,273,887	154,615	10,442,520

12 INVESTMENTS

Company	2006 US\$	2005 US\$
SHARES IN SUBSIDIARY UNDERTAKINGS		
Anglo Asian Operations Limited	1,325,007	1,325,007

On 24 June 2005, the Company allotted 61,533,100 ordinary shares to the shareholders of Anglo Asian Operations Limited ("AA Operations") as consideration pursuant to a share for share exchange agreement entered into with each such shareholder whereby each ordinary share of 1p in AA Operations was exchanged for 200 ordinary shares of 1p each in the Company in order to acquire all of their respective shareholdings in AA Operations.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 LIST OF SUBSIDIARIES

Name	Country of incorporation	Primary activity	Percentage of holding (%)
Anglo Asian Operations Limited	Great Britain	Holding Company	100
Holance Holdings Limited	British Virgin Islands	Holding Company	100
Anglo Asian Cayman Limited	Cayman Islands	Holding Company	100
R.V. Investment Group Services LLC	Delaware, USA	Mineral development	100
Azerbaijan International Mining Company Limited	Cayman Islands	Mineral development	100

14 DEBTORS

	Group		Company	
	2006 US\$	2005 US\$	2006 US\$	2005 US\$
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Prepayments	126,318	567,768	112,072	527,638
HM Customs and Excise	19,784	233,337	19,784	233,337
Other debtors	24,505	95,170	18,028	89,312
Advances to acquire fixed asset	—	4,350,000	—	4,350,000
Amounts owed by subsidiary undertakings	—	—	13,195,543	4,571,679
Total	170,607	5,246,275	13,345,427	9,771,966

The advances to acquire fixed asset relates to a CIL plant. Stage payments amounting to \$4,350,000 were made in 2005 and allocated to prepayments. In the current year all outstanding amounts have been paid and the plant has been recognised as a fixed asset.

15 CASH

There are no restrictions over the access to, and use of, the Group's bank and cash balances, other than those that customarily relate to periodic short-term deposits.

16 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2006 US\$	2005 US\$	2006 US\$	2005 US\$
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Trade creditors	172,889	213,776	102,432	213,776
Other creditors	89,355	4,910	74,258	29,038
Accruals	928,209	579,527	739,775	197,662
Total	1,240,453	798,213	916,465	440,476

17 DEFERRED TAXATION

	2006 US\$	2005 US\$
Group		
The elements of deferred unrecognised taxation are as follows:		
Tax losses	2,683,749	877,564
Unrecognised deferred tax asset	2,683,749	877,564
Company		
The elements of deferred unrecognised taxation are as follows:		
Tax losses	497,482	20,934
Unrecognised deferred tax asset	497,482	20,934

A deferred tax asset has not been recognised in respect of timing differences relating to tax losses as there is insufficient evidence that the asset will be recovered. None of the assets are recognised. The asset would be recovered if suitable taxable profits were generated in future periods.

18 CALLED UP SHARE CAPITAL

Company	2006		2005	
	Number	£	Number	£
AUTHORISED				
Ordinary shares of 1p each	600,000,000	6,000,000	600,000,000	6,000,000
	Number	US\$	Number	US\$
ALLOTTED AND FULLY PAID				
At the beginning of the year/period	99,171,800	1,782,605	1	2
Subscriber share sub-divided into shares of £0.01	—	—	99	—
Shares issued in consideration for share in Anglo Asian Operations Limited	—	—	73,171,700	1,325,003
Shares placed for cash	—	—	26,000,000	457,600
AT THE END OF THE YEAR/PERIOD	99,171,800	1,782,605	99,171,800	1,782,605

On 17 February 2005, a written resolution of the Company passed whereby:

- the one subscriber share referred to above constituting the entire issued share capital of the Company was sub-divided into 100 ordinary shares of 1p each;
- each of the 99 ordinary shares of £1 each constituting the authorised but unissued share capital of the Company was sub-divided into 9,900 ordinary shares of 1p each;
- the authorised share capital of the Company was increased to £6,000,000 by the creation of an additional 599,990,000 new ordinary shares;
- the Directors were generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985, to exercise all the powers of the Company to allot relevant securities; and
- the Directors were further empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (as defined in Section 94 of that Act) for cash pursuant to the authority limited respectively pursuant to an agreement between the Company and AA Operations dated 25 July 2005.

On 29 July 2005, the Company was admitted to AIM issuing 26,000,000 ordinary shares for £20,020,000 before costs of the issue.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 SHARE-BASED PAYMENTS**EQUITY-SETTLED SHARE OPTION SCHEME**

The Company operates a share option scheme for Directors and senior employees of the Group. Options are granted at a price agreed at the time of the grant. The vesting period are up to three years.

Details of the share options outstanding during the year are as follows:

	2006		2005	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of year/period	4,616,217	0.78	—	—
Granted during the period	4,150,339	0.43	4,616,217	0.78
Forfeited during the period	(877,595)	0.77	—	—
Outstanding at 31 December	7,888,961	0.60	4,616,217	0.78
Exercisable at 31 December	3,026,314	0.79	2,231,361	0.79

The options outstanding at 31 December 2006 had a weighted average exercise price of £0.60 and a weighted average remaining contractual life of nine years. In the year ended 31 December 2006, options were granted on 13 March, 12 April and 1 July. The aggregate of the estimated fair values of the options granted on those dates is £612,700 (\$1,115,113). In 2005 options were granted on 26 July. The aggregate of the estimated fair values of the options granted on that date is £682,305 (\$1,241,975).

The inputs into the Black-Scholes model are as follows:

	2006
Weighted average share price	0.60
Weighted average exercise price	0.60
Expected volatility	64%
Expected life	2 years
Risk free rate	4.41%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

20 RESERVES

Group	Merger Reserve US\$	Share premium account US\$	Profit and loss account US\$
As at 1 January 2006	46,206,390	30,279,301	(3,469,434)
Share-based payment charge	—	—	(589,569)
Recognition of share options	—	—	589,569
As at 1 January 2006 restated	46,206,390	30,279,301	(3,469,434)
Loss for the year	—	—	(4,428,073)
Exchange differences	—	—	(175,616)
Recognition of share options	—	—	776,668
AS AT 31 DECEMBER 2006	46,206,390	30,279,301	(7,296,455)

Company	US\$	US\$	US\$
As at 1 January 2006	—	30,279,301	(96,315)
Share-based payment charge	—	—	(589,569)
Recognition of share options	—	—	589,569
As at 1 January 2006 restated	—	30,279,301	(96,315)
Loss for the year	—	—	(2,133,204)
Exchange differences	—	—	(175,616)
Recognition of share options	—	—	776,668
AS AT 31 DECEMBER 2006	—	30,279,301	(1,628,467)

21 RECONCILIATION OF SHAREHOLDERS' FUNDS

Group	Share capital US\$	Share premium account US\$	Merger reserve US\$	Profit and loss account US\$	Shareholders' funds US\$
As at 1 January 2006	1,782,605	30,279,301	46,206,390	3,469,434	74,798,862
Share-based payment charge	—	—	—	(589,569)	(589,569)
Recognition of share options	—	—	—	589,569	589,569
As at 1 January 2006 restated	1,782,605	30,279,301	46,206,390	(3,469,434)	74,798,862
Loss for the year	—	—	—	(4,428,073)	(4,428,073)
Exchange differences	—	—	—	(175,616)	(175,616)
Share-based payment	—	—	—	776,668	776,668
AS AT 31 DECEMBER 2006	1,782,605	30,279,301	46,206,390	(7,296,455)	70,971,841

Company	US\$	US\$	US\$	US\$	US\$
As at 1 January 2006	1,782,605	30,279,301	—	(96,315)	31,965,591
Share-based payment charge	—	—	—	(589,569)	(589,569)
Recognition of share options	—	—	—	589,569	589,569
As at 1 January 2006 restated	1,782,605	30,279,301	—	(96,315)	31,965,591
Loss for the year	—	—	—	(2,133,204)	(2,133,204)
Exchange differences	—	—	—	(175,616)	(175,616)
Share-based payment	—	—	—	776,668	776,668
AS AT 31 DECEMBER 2006	1,782,605	30,279,301	—	(1,628,467)	30,433,439

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 RECONCILIATION OF MOVEMENTS IN CASH BALANCES

	Year ended 31 Dec 2006 US\$	Period from 1 Feb 2005 to 31 Dec 2005 US\$
Opening cash balance	21,345,703	972,306
Shares issued for cash in subsidiary	—	663,539
Issue of ordinary shares, net of expenses	—	30,736,901
Repayment of loans	—	(58,280)
Cash flow	(14,991,601)	(10,968,763)
CLOSING CASH BALANCE	6,354,102	21,345,703

23 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Year ended 31 Dec 2006 US\$	Restated (Note 1) Period from 1 Feb 2005 to 31 Dec 2005 US\$
Operating loss	(5,009,199)	(3,249,408)
Depreciation	148,615	38,004
Provision for impairment of capitalised exploration and evaluation expenditure	185,103	—
Decrease/(increase) in debtors and prepayments	725,668	(5,245,136)
Increase in creditors and accruals	442,240	475,065
Cost of share-based payments	776,668	589,569
Exchange differences	(175,616)	(69,184)
Net cash outflow from operating activities	(2,906,521)	(7,461,090)

24 RELATED PARTIES

The Directors do not consider there to be an ultimate controlling party.

- a) Mr Charles Hancock is a Director of and has a controlling interest in Anglo-Suisse Capital Limited. During the period services were provided by Anglo-Suisse Capital Limited to the Group at arm's length as follows:

	Year ended 31 Dec 2006 US\$	Restated (Note 1) Period from 1 Feb 2005 to 31 Dec 2005 US\$
Corporate finance fee for financial advice on admission to AIM	—	350,000
Other corporate finance and administrative services, including provision of office facilities	28,360	139,372
	28,360	489,372

As at 31 December 2006 the Group owed Anglo-Suisse Capital Limited \$20,520 (2005: \$nil).

- b) Mr Robert Jeffcock is a Director and has a controlling interest in the following companies which provided services to the Group on an arm's length basis:

	Year ended 31 Dec 2006 US\$	Restated (Note 1) Period from 1 Feb 2005 to 31 Dec 2005 US\$
3 Legs Venture Capital plc – provision of accommodation	—	34,125

- c) Mr Reza Vaziri retains an indirect interest in the lease of the office in Baku, Azerbaijan. The cost of the lease in the period was \$98,766.(2005: \$84,504).
- d) Shares issued to Directors are disclosed in the Directors' report.

25 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Board reviews and agrees policies for managing financial risks.

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments, such as debtors and trade creditors, which arise directly from its operations. Surplus cash within the Group is put on deposit, the objective being to maximise returns on such funds whilst ensuring that the short-term cash flow requirements of the Group are met.

The Group has not used derivative financial instruments during 2006. The Board will review the need for the use of derivative financial instruments in the future.

SHORT-TERM DEBTORS AND CREDITORS

Short-term debtors and creditors have been excluded from all numerical disclosures, other than the currency risk disclosures.

COMMODITY PRICE RISK

The Group has not yet commenced commercial mining and does not hold any financial instruments to hedge the commodity price risk on its expected future production. The Board will review this exposure prior to any mines becoming operational.

FOREIGN CURRENCY RISK

The Group reports in US dollars and a large proportion of its business is conducted in US dollars. It also conducts business in Australian dollars, Azerbaijan manats and UK sterling.

LIQUIDITY/INTEREST RATE RISK

Shortly after the IPO the only debt in the Group was repaid and there is no debt as at 31 December 2006. Board approval is required for all new borrowing facilities. The Group has not used any interest rate swaps or other instruments to manage its interest rate profile during 2006.

At the year end the Group had cash on short-term deposit. Short-term deposits during the period included overnight, one week and monthly up to 12 months.

MARKET RISK

Exposure to interest rate fluctuations is minimal as the Group currently has no debt. Interest rates on sterling and US dollar deposits are relatively stable and the impact of a fluctuation in the interest rate on interest earned on the Group's short-term deposits is likely to be minimal.

(A) INTEREST RATE PROFILE OF THE GROUP'S FINANCIAL ASSETS

The interest rate risk profile of financial assets of the Group at 31 December 2006 is as follows:

		2006	2005
		US\$	US\$
Cash at bank			
US dollars	Floating rate	6,032,687	3,352,766
US dollars	Fixed rate	—	13,000,000
US dollars	Non-interest bearing	949	7,219
UK sterling	Floating rate	205,676	2,384,009
Azerbaijan manats	Non-interest bearing	114,790	33,218
Australian dollars	Floating rate	—	2,568,491
		6,354,102	21,345,703

(B) CURRENCY EXPOSURES

The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account. All amounts are shown as US dollar equivalents.

	As at 31 Dec 2006			As at 31 Dec 2005		
	Manats	£	€	Manats	£	Aud
AMOUNTS FALLING DUE WITHIN ONE YEAR:						
Debtors	12,296	149,884	—	5,859	400,213	391,188
Creditors	(19,376)	(356,140)	(36,893)	(15,649)	(413,317)	—
Cash	63,261	205,556	62	33,218	2,384,009	2,568,491
	56,181	(700)	(36,831)	23,428	2,370,905	2,959,679

Foreign exchange gains totalling \$361,957 (2005: \$208,112) have been recognised in the profit and loss account for the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS CONTINUED**(C) FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The following is a comparison by category of the carrying amounts and the fair values of the Group's financial assets and liabilities as at 31 December 2006.

	As at 31 Dec 2006 US\$ Book value	As at 31 Dec 2005 US\$	As at 31 Dec 2006 US\$ Fair value	As at 31 Dec 2005 US\$
PRIMARY FINANCIAL INSTRUMENTS				
Cash	6,354,102	21,345,703	6,354,102	21,345,703

The fair value of cash balances equates to their carrying value because of the short maturity of these instruments.

26 COMMITMENTS AND CONTINGENCIES

Obligations under the PSA ("Production Sharing Arrangement") – The PSA contains various provisions relating to the obligations of the R.V. Investment Group Services LLC ("RVIG") including carrying out certain tasks by certain dates.

The Directors believe that RVIG is in compliance with the requirements of the PSA.

Environmental liability – RVIG is required to comply with the clauses contained in the PSA relating to environmental damage. The Directors believe RVIG is substantially in compliance with the environmental clauses contained in the PSA.

There are no operating lease commitments.

27 SUBSEQUENT EVENTS

On 15 February 2007 the Company announced the results of the scoping study on Gedabek, which concluded that the optimal treatment for the ore is heap leaching. As a result the Company will sell the CIL plant.

On 5 March 2007 the Company announced that it had submitted a Notice of Discovery and its Commerciality for Gedabek to the Ministry of Ecology and Natural Resources.

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COMPANY DIARY

30 June 2007	Half year end
August 2007	Interim results
31 December 2007	Financial year end
March 2008	Preliminary results
April 2008	Annual General Meeting

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