



Anglo Asian Mining PLC is a mining development company with eight gold and copper 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.

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## HIGHLIGHTS

- Gedabek feasibility study successful
- CIL plant sold
- Bank funding of \$25 million in place with the International Bank of Azerbaijan (“IBA”)
- Development plans proceeding for 2008 operation



**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 86,000km<sup>2</sup>, 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.

## CHAIRMAN'S STATEMENT

### Our most important development has been the advancement of the Gedabek gold/copper project, for which we have commenced mine construction.

#### HIGHLIGHTS

- Gedabek development advanced
- Bank financing in place
- Sale of CIL plant
- Further exploration intended

I am pleased to report to you on the Company's progress during the past year.

As incoming Chairman half way through 2007, I have witnessed an interesting year in Azerbaijan, where the Company was able to consolidate its strategic position in the country and fulfil its obligations under the Production Sharing Agreement ("PSA") it shares with the Government. Our most important development has been the advancement of the Gedabek gold/copper project, for which we commenced construction after identifying an indicated resource in November 2006.

During the last twelve months the demand for base and precious metals has remained strong, led by the extraordinary growth of the Indian and Chinese economies. Gold prices have remained buoyant over the period, reaching new highs in early 2008, fuelled by soaring oil prices and power outages in South Africa.

Despite record prices for gold, silver and copper, the mining industry is struggling to keep pace with the high demand for metals. The time from discovery to production has increased significantly as companies struggle over land title issues, changes to tax laws, environmental constraints, shortages of qualified mining individuals and extra long lead times on key items of equipment.

#### Gedabek

At Gedabek, our Company has been fortunate in being able to fast-track this gold and copper mining project, requiring small and available machinery, with minimal delays through the approval processes. We obtained feasibility study approval in June 2007, the environmental approval in September 2007 and put the financing in place in early 2008. The project is now poised to deliver its first gold production before the end of 2008 with copper production following shortly thereafter.

The Gedabek project consists of an open pit mine producing 1.5 million tonnes of ore each year, a heap leach pad and processing facility for the recovery of gold, copper and silver. The stripping ratio is low at around 1.5 to 1.0, enabling the flat lying ore deposit to be readily accessed and higher grades mined early in the project's life. The project should return its capital investment very quickly due to the high grades scheduled to be leached during 2009.

The products from Gedabek, in the form of gold doré and copper/silver rich concentrates will be exported for further processing and refining. The Company has no restrictions on these exports under the terms and conditions of the PSA.

The Gedabek feasibility study was completed in June 2007 and the Development and Production Plan was submitted to the Government and approved in the third quarter. Environmental approvals were also obtained from the Ministry of Ecology and Natural Resources during the third quarter. These approvals required the completion of a base-line study and an environmental impact study and included a local environmental hearing at which the residents of Gedabek were able to express their overwhelming support for the project. The Company is determined to maintain the highest environmental standards at the mine, recognising that it is located close to a populated area.

I am pleased to report that the Group has continued to assist the local community at Gedabek. Following severe weather damage to schools and public buildings earlier this year, we purchased roofing materials which enabled repairs to be carried out in a timely manner. We also partnered with a local company in Azerbaijan to join the USAID Farmer-to-Farmer programme to improve the productivity and income of over 800 families in the Gedabek region.

#### Exploration

Although the Company focused most of its resources on the Gedabek deposit during 2007, exploration efforts continued both in Ordubad in the south and at the Gosha property, which is located to the north west of Gedabek.

At Gosha, further test sampling and ore grade comparisons with Russian data confirmed that potentially economic mineralisation exists. The area around Gosha was mapped and sampled during the year as part of a reconnaissance programme in search of further mineralised areas.

The exploration work in Ordubad was focused around mapping and sampling of some of the smaller deposits in the area which are considered prospective for copper and molybdenum. Soils and sediment sampling was also taken out in areas between the known mineral occurrences.

The Company has until April 2009 to further evaluate the properties it has been granted under the PSA, with the possibility of an extension to this time period. We look forward to more exploration success, especially if in the future we can explore three more prospects located in the Occupied Territories of western Azerbaijan.

#### Sale of CIL plant

Following extensive advertising, the CIL plant purchased by the Company in 2005 was sold to a Kazakhstan gold producer for a consideration of \$7.5 million, before sales costs. Although the sale value of the plant was less than expected, the cash inflow occurred at a critical time for the Company.



The proceeds greatly assisted with financing the Gedabek project and enabled the project team to continue with the planning and infrastructure requirements.

### Financing

The strategy on the further financing requirement of \$25 million for the Gedabek project was to first explore local Azeri sources of debt. The Azerbaijan economy receives increasingly substantial revenues from the oil and gas sector and local banks are well placed to assist with the funding of ventures to support growth in other sectors of the economy.

Through extensive discussions and a strong relationship with the IBA, the Company was able to obtain an unsecured \$5 million credit line from the bank in January 2008 to add to its own internal funding. In April 2008 the IBA also committed to a \$20 million term loan, which has subsequently been executed and enables the Company to build the mine at Gedabek. The IBA funding is considered a major breakthrough for the Group.

The current forecasts demonstrate that the existing cash resources and available debt provide sufficient funds to complete the construction of the mine at Gedabek. The Board is aware of the current inflationary pressures in the mining industry, the risk of delays to the development, production and revenue falling short of expectations and the uncertainty that brings to going concern. If there are either cost overruns or delays which result in a funding shortfall then the Board will have to take steps to ensure there is adequate funding in the period to 30 June 2009. The major shareholders on the Board have confirmed that they would be willing to provide additional funding in such an event and also consider that further working capital facilities could be negotiated with the IBA. The Company is seeking the approval of the shareholders, at the AGM on 23 July to increase the borrowing capacity under the Articles of Association to four times the Adjusted Capital and Reserves and also to increase the ability to allot for cash up to 10% of the current share capital on a non pre-emptive basis. Approval of these Special Resolutions will if necessary facilitate the ability to raise additional funds. For these reasons the Directors continue to adopt the going concern basis in preparing the financial statements (see note 1 to the consolidated financial statements). The projected cash flows commencing in the first quarter of 2009 will put the Company in a strong position to pay back the debt quickly and generate funds for future growth.

### Financial results

The Group reported a loss of \$14,683,306 (2006: \$4,428,073). The operating loss resulted from the costs of administrative expenses of \$4,935,566 (2006: \$4,824,096), a provision for impairment of exploration expenditure and mining rights of \$6,692,218 (2006: \$185,053) and the write-down of the CIL plant held for sale of \$3,273,887 (2006: \$nil).

Net interest income in the year was \$218,365 (2006: \$581,126).

Exploration and evaluation expenditure of \$2,035,970 (2006: \$6,017,138) was capitalised in the year.

At the year end the Group retained cash balances of \$6,810,902 (2006: \$6,354,102): there was no borrowing.

### Board and management

In July 2007 I joined the Board as Chairman following the departure of Mr Graham Mascall. It was with great pleasure that I was able to assist in the challenging process of raising the necessary funds to develop the Gedabek project.

I would like to take this opportunity to thank Graham Mascall for his term as Chairman, during which time the Company's strategic focus was identified and executed.

Following the Company securing its financing, the management team in Azerbaijan was enhanced with experienced individuals from Kazakhstan to supplement a number of competent Azeri staff for the development phase of the project. This combination has subsequently been boosted by engaging a Turkish construction management group to supervise the construction of the mine.

Tim Eggar has advised the Board that he will not be offering himself up for re-election at the AGM scheduled for 23 July and will step down from the Board at that time. Tim has been on the Board for the three years following the IPO and on behalf of the whole Board I would like to thank him for his significant contribution during this period. At the same time Richard Round will step down from his executive duties as Finance Director and take up a position as a Non-executive Director also filling the vacancy of Chairman of the Audit Committee currently held by Tim. This follows the conclusion that we will need a full time CFO based in Azerbaijan as we head towards production. We have already appointed John Gibson to the non-board position of interim CFO and the search for a full time CFO is underway.

I would like to thank all of our employees for their persistence and hard work during 2007. I believe the uncertain phase for the Company is behind us and we can look forward to building a strong foundation during the coming year.

**Khosrow Zamani**  
**CHAIRMAN**  
**25 June 2008**

# A mine development is underway at Gedabek following the Company's successful feasibility study of the project and financing for the full scale development.

### HIGHLIGHTS

- Gedabek feasibility study successful
- Funding secured with the IBA
- Gedabek mine development now being progressed
- Exploration targets at Ordubad and Gosha identified

### Introduction

The Group has made some exciting progress during 2007. A mine development is underway at Gedabek, following the Group's successful feasibility study of the project and financing for the full scale development of the mine. In addition, some very good exploration targets are being pursued this year, two of which are in the vicinity of the Gedabek development.

The Gedabek project will provide the Group with cash flow to assist with its future growth in the region. The highly rated Tethyan belt running through Iran, Azerbaijan, Georgia and Turkey can be expected to produce more development opportunities, as this area remains under-explored compared with many other gold/copper districts throughout the world. Funds to be generated by Gedabek and good financial relationships in Azerbaijan will place Anglo Asian in a strong position to take advantage of the exploration, acquisition and development opportunities the region has to offer. As the first major gold project in Azerbaijan, the Company is expected to receive on-going support for its activities under its PSA with the Government of Azerbaijan. We have acquired rights for mining and exploration for up to 25 years in the Gedabek Contract Area, under the PSA following the successful discovery.

At least one area in Ordubad and the Gosha prospects remain as an exploration target. In addition, the Group holds rights for three highly rated prospects in the Occupied Territories to the south of Gosha and Gedabek. Following recent political changes in Armenia, we are advised that negotiations are progressing well between the Governments of Armenia and Azerbaijan.

### Exploration programmes

During 2007, the Group focused its efforts on field exploration in and around the Gedabek and Gosha Contract Areas. Soils and grab samples were taken over previously un-explored territory and areas were checked between the known anomalies in these Contract Areas. Sampling continued at the Gosha prospect and at nearby streams and outcrops. Samples taken from the

Maskhit deposit near Gedabek showed there is potential for economic grades of copper in the area and the Group will focus on this prospect and the known Maarif deposit during the 2008 exploration programme.

### ORDUBAD

Activity in the Ordubad region was restricted to mapping and sediment sampling during 2007. The camp at Keleky was moved to Gedabek and both geological and ancillary staff numbers reduced to focus resources on the Gedabek project. However, the Group does intend to explore further in the Misdag/Agyurt prospect area, where only limited exploration work was possible in the past.

The Group remains optimistic that other prospects such as Piyazbashi will become increasingly attractive at sustained high gold prices. The Piyazbashi prospect consists of a multitude of gold bearing quartz sulphide veins, which vary substantially in grade and thickness. Grades from re-sampling of the adits show good correlation with previous Russian data. The Group's sample results returned grades in the range 0.2 g/t to 80.7 g/t, reflecting the high variability of grades within each of the vein structures. Although tonnages would be restricted by underground mining at Piyazbashi and grades diluted in some of the narrow veins, the prospect will become more viable as the gold price continues to rise.

The Diakhchay copper/gold/molybdenum prospect is another target for further work in future exploration programmes. Some good surface sample results provide added incentive to explore this prospect further.

### GOSHA

Additional sampling and evaluation at Gosha during 2007 showed the deposit to be erratic in grade and a high risk mining proposition, due to the nature of the ore and apparent distribution of the grade. Consistent gold grades would seem to be limited to the upper level east-west structure, which has seemingly little potential at depth.

It is considered that substantial underground driving and sampling is required to evaluate fully this prospect. Because of the focus on Gedabek during 2007, exploration efforts at Gosha were restricted. At higher gold prices the option of trucking some of this ore to Gedabek for processing remains a possibility.





**The Gedabek project will provide the Company with cash flow to assist with its future growth in the region.**



**The location, nature and size of the Gedabek deposit make it ideally suited to open pit mining and heap technology.**

**The current construction schedule shows first mine production by the last quarter of 2008.**

### **Exploration programmes continued**

#### **MAARIF**

The geological structure at Maarif is represented by tuffs and andesite porphyrites, together with rhyolites. The area was initially investigated by Siemens during the operation of the nearby Gedabek mine. Government geologists have since identified an area of strongly hydrothermally altered and tectonically dislocated material covering a surface area of four kilometres by about 300 metres in width.

A short Government drilling programme, prior to the PSA, identified a potential low grade copper resource, which is also believed to host gold, silver and molybdenum. The Group is undertaking further investigations of this prospect during 2008 to determine its economic potential. Both its prospectivity and close proximity to Gedabek rank Maarif as a high priority exploration target for the Company.

#### **Gedabek development**

The Gedabek project was taken through scoping, feasibility and financing stages during 2007. The project is the highlight of a successful year for the Group, and higher metal prices have enhanced the potential value of this project. The value of the by-product metals, silver and copper, has also assisted in keeping cash costs per ounce of gold well within the first quartile of gold producer costs.

A recently revised capital cost estimate of \$25 million for the project is consistent with earlier estimates, given that the purchasing of a new mining fleet has been deferred until after production start-up. Steel and contracting costs have risen, but the Group believes that its current loan facilities will provide sufficient finance to take Gedabek to production, although the Board is aware of the current inflationary pressures in the mining industry and the risk of construction delays, which could result in a further funding requirement.

During 2007, the Group produced a feasibility study by mid year which showed the Gedabek deposit can be successfully developed using relatively simple heap leach technology, supplemented by a sulphidation, acidification, recycling and thickening of the precipitate (SART) process which recovers valuable metal credits for copper and silver. The application of this process also reduces overall cyanide consumption by returning cyanide associated with copper and silver back into the leaching circuit. Its application has been restricted in the past by low copper prices. The cost of recovering copper by this means is estimated to be higher than \$1.00 per pound at current costs of reagents. However, at sustained high copper prices, the process is finding wider application in the mining industry, with several companies introducing SART in similar circumstances to Gedabek. The Group was fortunate to retain first class consultants in SRK, SGS Lakefield and Knight Piesold for this study.





The Gedabek project has been developed from a JORC coded resource base of 15.6 million tonnes of ore grading 1.4 g/t gold, 0.24% copper and 12.2 g/t silver in the indicated and inferred categories. Mining reserves at conservative metal prices of \$600 per ounce for gold, \$6 per ounce for silver and \$1.80 per pound for copper were calculated to be 7.7 million tonnes of ore grading 1.80 g/t gold, 15.9 g/t silver and 0.29% copper. The mining reserve is very sensitive to both metal prices and operating costs. This gives the mine a good chance of extending the mine life beyond the current six years on the current resource base alone. In addition, the ore body remains open in several directions and old stockpiles are likely to account for at least one extra year of production. A low grade copper halo surrounding the gold/copper ore deposit is also of economic interest, should copper prices remain at current levels, together with the old Siemens workings, most of which lie beneath the planned open pit mine.

The location, nature and size of the Gedabek deposit make it ideally suited to open pit mining and heap technology. Mining will take place on a hill slope with a two kilometre haul to a leach pad, which is to be formed on existing sloping ground at a similar elevation. No clearing of vegetation is required, simply removal of the topsoil. The extensive clay beds in the area will provide an ideal, impervious base for the leach pad. Earthworks requirements are not extensive and water supplies are readily available from nearby streams. To ensure reliability of power supply, the Group plans to use its own diesel powered generators initially.

Suitable mining and earthworks contractors have been identified in Azerbaijan. Consideration will be given to purchasing a mining fleet once construction work and the pre-strip mining is underway dependent on cash flows and performance of the mining contractor during the construction phase.

The current construction schedule shows first mine production by the last quarter of 2008. The mining schedule has been designed to access high grade ore relatively early in the mine life. Gold production is expected to exceed 80,000 ounces during 2009.

The Group is fully committed to its environmental and safety obligations at Gedabek. An environmental baseline study and environmental impact study were completed during the year and approved by the Government authorities. Land has been assigned to the project for its duration and both the Gedabek community and local authorities have strongly supported the development. The project is of national importance to the Azerbaijan Government in a country dominated by the oil sector. Gedabek will be the first significant gold mining project in the country.



### **Infrastructure**

The Group has substantially improved its facilities at Gedabek during 2007. The rented hotel has been upgraded to accommodate additional staff and workers, adding a new dining room and improving plumbing and communications systems. In June 2007, work commenced on the permanent mine camp. Most of the camp buildings have been constructed under Company supervision, using local labourers. This approach has been successful and good quality work has been achieved. The exploration camp from Ordubad was moved to Gedabek as a starting point for the camp, which is planned to accommodate 80–100 staff during operations.

### **CIL plant**

The CIL plant was sold during the third quarter of 2007 for \$7.5 million, before costs of disposal, providing cash reserves to continue with the Gedabek development and arrange project financing.

### **Staffing**

During 2007, the Group retained sufficient staff to keep the Gedabek project moving and has since appointed construction and operating personnel to commence the early construction work. Several experienced operations personnel have been recruited from Kazakhstan to assist with the mine start-up. These people complement a local Azeri management team, several of whom have a mining or oil industry background. It is anticipated that additional management resources will be needed during construction and these are being sought from neighbouring Turkey and Iran, where the mining industries has been firmly established.

Attention has been given to the reduction of our cost base and we have achieved savings from the closure of the London office in February 2007.

### **Financing**

The Group has obtained funding since the year end from the IBA which enables us to develop Gedabek. The Bank has provided two facilities, firstly, one of \$5 million repayable in three years and secondly, one of \$20 million repayable over four years with a two year grace period. Both facilities carry interest at 15%. Further details on this and going concern are given in the finance review.

**Gordon Lewis**  
**CHIEF EXECUTIVE**  
**25 June 2008**



### The Group has obtained credit facilities with the International Bank of Azerbaijan to secure the Gedabek development.

#### HIGHLIGHTS

- Bank funding secured
- CIL plant sold
- Further cost reductions
- Net cash at the year end: no debt

The Group reported a loss for 2007 of \$14,683,306 (2006: \$4,428,073). The operating loss resulted from administration expenses of \$4,935,566 (2006: \$4,824,096) and a provision for impairment of capitalised exploration expenditure and impairment of mining rights of \$6,692,218 (2006: \$185,103) and the write-down of plant held for sale of \$3,273,887 offset by net interest income of \$218,365 (2006: \$581,126).

The administrative expenses have been incurred in Azerbaijan and London. Our London office was closed in February 2007 to reduce the cost base.

The Group has prepared its consolidated accounts for 2007 in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union. On adoption of IFRS no changes have been required to the comparative results for the previous year.

The Directors have decided that a provision should be made against the capitalised exploration expenses relating to Piyazbashi of \$1,111,286 reducing the carrying value to \$1,000,000 and Misdag/Agyurt of \$580,932 reducing the carrying value to \$nil. In addition a provision for impairment has been raised against mining rights relating to Ordubad of \$5,000,000. The decision to impair these asset results from the reduction in time available in the exploration period of the PSA. This follows the decision to concentrate resources on the development of Gedabek.

The net interest income 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.

Exploration and evaluation expenditures of \$2,035,970 (2006: \$6,017,138) were incurred and capitalised in the year.

Following the results of the Gedabek scoping study, a decision was made to sell the CIL plant and use the proceeds to develop a heap leach facility at Gedabek. The plant was sold in September, after the cost of disposal, for \$7,004,585.

The Group retained cash balances of \$6,810,902 (2006: \$16,354,102) 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 2007. 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 2007.

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.

In January 2008 the Group obtained a credit facility with the IBA of \$5 million repayable after three years, expiring on 14 January 2011, with an interest rate of up to 15%. Repayments in equal monthly instalments are due from February 2010. In April 2008 the IBA also agreed to additional funding to the Group by way of a further credit facility of \$20 million at an all inclusive annual interest rate of 15%. The loan agreement is for four years from 15 February 2008 with a two year grace period to repay the monies loaned. In 2010 \$8 million is scheduled to be repaid in quarterly instalments and in 2011 \$5 million and \$7 million are repayable in March and June respectively. There is no penalty for early repayment.

#### Market risk

Exposure to interest rate fluctuations is minimal as the Group currently has no debt. Interest rates on UK 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. The Group will be exposed to fluctuations in commodity prices once production commences.

#### Operational risk

There is exposure to delay in the construction programme and the resulting timing of production and sale of minerals. The Group will monitor progress on a regular basis.

**Richard Round**  
FINANCE DIRECTOR  
25 June 2008



### **Mr Khosrow Zamani**

#### **NON-EXECUTIVE CHAIRMAN, AGE 65**

##### **Appointed 1 June 2007**

Khosrow Zamani was director of the Southern Europe and Central Asia Department of the International Finance Corporation (IFC), the private sector lending arm of the World Bank, from March 2000 to July 2005. This department was responsible for the IFC investment programme in 15 countries across the region. In July 2005, Khosrow was appointed as Senior Adviser to the Vice President of Operations. Whilst a director at IFC, Khosrow was instrumental in building the IFC investment programme in the region with several new initiatives, particularly in Central Asia and Caucasia. He oversaw the IFC portfolio of more than \$2 billion, diversified across the financial, oil and gas, mining and manufacturing sectors.

### **Mr Reza Vaziri**

#### **PRESIDENT, AGE 55**

Reza 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 59**

Over the course of his career, Gordon 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. Gordon 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 50**

Richard Round is a fellow of the Chartered Association of Certified Accountants. He began his career with British Coal in 1977. In 1987 Richard joined Ferrum Holdings plc, becoming group finance director in 1993. In 1995 Richard 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, Richard 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. Richard has also been finance director for Cambrian Mining PLC and is now chief financial officer of Lubel Coal Company Limited.

### **Dr Ross Bhappu**

#### **NON-EXECUTIVE DIRECTOR, AGE 48**

Dr Bhappu is a partner with Resource Capital Funds with extensive experience in the mining industry working for both senior and junior mining companies. Prior to joining Resource Capital Funds in early 2001, he served as chief executive officer of GTN Copper Corporation, director of business development for Newmont Mining Corporation and held various technical and commercial roles with Cyprus Minerals Company. Ross 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 56**

Tim 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 Indago Petroleum PLC and Nitel Solar Ltd and a non-executive director of Rock Well Petroleum Inc. He was the founding chairman of the Anglo-Azeri Society.

### **Governor John H Sununu**

#### **NON-EXECUTIVE DIRECTOR, AGE 68**

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, 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.

# DIRECTORS' REPORT

The Directors submit their report and the financial statements of Anglo Asian Mining PLC for the year ended 31 December 2007.

## 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 ended 31 December 2007 amounted to \$14,683,306 (2006: \$4,428,073).

In future when the mine is operational, relevant Key Performance Indicators will be given for the business.

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 23 to the consolidated financial statements.

## Statement of directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with IFRS as adopted by the EU. Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

IAS 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires that faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IAS Board's "Framework for the Preparation and presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 1985.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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 year and their interests in ordinary shares of the Company at 31 December 2007 and 31 December 2006 were:

	<b>31 December 2007</b>	31 December 2006
	<b>number of shares</b>	number of shares
Directors		
Khosrow Zamani (appointed 1 June 2007)	<b>20,000</b>	—
Graham Mascall (resigned 17 July 2007)	—	—
Reza Vaziri	<b>29,111,208</b>	28,771,200
Gordon Lewis	—	—
Richard Round	—	—
Ross Bhappu	—	—
Tim Eggar	<b>45,564</b>	19,500
John Sununu	<b>9,631,400</b>	9,595,400

A total of 450,080 shares were issued during the year to the Directors and Resource Capital Fund III L.P. in lieu of salaries and fees, bringing the total number of ordinary shares with voting rights to 99,621,880 at 31 December 2007.

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	<b>As at 1 January 2007</b>	Granted during the year	Lapsed in in the year	<b>As at 31 December 2007</b>
<b>Directors</b>						
Khosrow Zamani	16.5	1 June 2017	—	100,000	—	<b>100,000</b>
	12.0	27 July 2017	—	500,000	—	<b>500,000</b>
Graham Mascall	39.5	13 March 2016	<b>1,487,577</b>	—	(1,487,577)	—
	55.0	13 March 2016	<b>495,858</b>	—	(495,858)	—
Gordon Lewis	42.5	1 July 2016	<b>1,487,577</b>	—	—	<b>1,487,577</b>
	12.0	27 July 2017	—	1,400,000	—	<b>1,400,000</b>
Richard Round	77.0	26 July 2015	<b>432,900</b>	—	—	<b>432,900</b>
	42.5	12 April 2016	<b>495,859</b>	—	—	<b>495,859</b>
	12.0	27 July 2017	—	600,000	—	<b>600,000</b>
Ross Bhappu	42.5	12 April 2016	<b>123,965</b>	—	—	<b>123,965</b>
Tim Eggar	77.0	26 July 2015	<b>743,788</b>	—	—	<b>743,788</b>
<b>Others</b>						
	*77.0	26 July 2008	<b>991,718</b>	—	—	<b>991,718</b>
	77.0	16 October 2007	<b>330,573</b>	—	(330,573)	—
	*77.0	26 July 2008	<b>991,718</b>	—	—	<b>991,718</b>
	97.0	11 August 2015	<b>247,925</b>	—	—	<b>247,925</b>
	42.5	12 April 2016	<b>59,503</b>	—	—	<b>59,503</b>
			<b>7,888,961</b>	2,600,000	(2,314,008)	<b>8,174,953</b>

All options can be exercised at various dates ranging from 26 January 2006 to 31 May 2010 other than those marked \* which can be exercised from date of grant.

### 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

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. These resources include the anticipated revenues from the projected gold, silver and copper production at Gedabek, existing cash balances, existing debt facilities and the Group's ability to raise further funds through either debt or equity, should production from the mine be delayed or if costs of the development increase. Although there is material uncertainty in this respect the Board is expecting that Gedabek will be in production before the end of 2008. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements. Refer to note 1 to the consolidated financial statements for further detail.

### Charitable and political contributions

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

## DIRECTORS' REPORT CONTINUED

### Substantial shareholdings

The Company has been informed that on 19 June 2008 the following shareholders held substantial holdings in the issued ordinary shares of the Company: the number of shares in issue at this date was 100,145,229.

Shareholders	Number of ordinary Shares	Holding %
Reza Vaziri	29,506,566	29.5
John Sununu	9,673,261	9.7
Khagani Bashirov	9,209,445	9.2
Resource Capital Fund III L.P.	6,260,575	6.3
Limelight Industrial Developments Limited	4,038,600	4.0
Colby Mining Limited	3,279,200	3.3
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 30.

### 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 234ZA of the Companies Act 1985.

### Annual general meeting

The Company will hold its next Annual General Meeting on 23 July 2008 at which this report and financial statements will be presented. Notification of the meeting has been sent along with this report.

By order of the Board

**Janette Davies**  
**COMPANY SECRETARY**  
**25 June 2008**

### 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 and 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 by 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 Khosrow Zamani, 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 Khosrow Zamani, 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 it 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 Annual General Meeting ("AGM"). In addition, the Company uses the annual report and accounts, interim statement and web site ([www.aamining.com](http://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 financial statements of Anglo Asian Mining PLC for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement, and the related notes 1 to 29. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Anglo Asian Mining PLC for the year ended 31 December 2007. That report is modified by the inclusion of an emphasis of matter.

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 Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group 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 Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information presented in the business review that is cross referred from the Principal Activity and business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group 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 Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, 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 Group 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 Group financial statements.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the Group financial statements.

## Emphasis of matter – going concern

Without qualifying our opinion we draw attention to the disclosures made in note 1 of the financial statements concerning the Group's ability to continue as a going concern which would depend upon the Gedabek Development being completed to budget, production starting before the end of 2008 and revenues meeting expectations, or alternatively, on obtaining additional financing. These considerations, together with the other matters set out in note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern as it is not practicable to determine or quantify them.



## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Administrative expenses		<b>(4,935,566)</b>	(4,824,096)
Write-down of capitalised intangible assets	8	<b>(6,692,218)</b>	(185,103)
Write-down of assets held for sale	9	<b>(3,273,887)</b>	—
<b>Operating loss</b>	5	<b>(14,901,671)</b>	(5,009,199)
Finance income	10	<b>218,365</b>	581,152
Finance costs	11	—	(26)
<b>Loss before tax</b>		<b>(14,683,306)</b>	(4,428,073)
Income tax expense	12	—	—
<b>Loss for the year</b>		<b>(14,683,306)</b>	(4,428,073)
<b>Loss per share</b>			
Basic (cents per share)	13	<b>(14.80)</b>	(4.47)
Diluted (cents per share)	13	<b>(14.80)</b>	(4.47)

The Group's loss relates to continuing operations in both years.

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2007

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Exchange differences on translation of foreign operations	—	(175,616)
Net expense recognised directly in equity	—	(175,616)
Loss for the year	<b>(14,683,306)</b>	(4,428,073)
<b>Total recognised income and expense for the year</b>	<b>(14,683,306)</b>	(4,603,689)

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2007 US\$	2006 US\$
<b>Non-current assets</b>			
Intangible assets	14	<b>49,727,700</b>	54,383,948
Property, plant and equipment	15	<b>1,242,048</b>	1,029,750
		<b>50,969,748</b>	55,413,698
<b>Current assets</b>			
Trade and other receivables	17	<b>444,514</b>	170,607
Cash and cash equivalents	18	<b>6,810,902</b>	6,354,102
		<b>7,255,416</b>	6,524,709
<b>Assets classified as held for sale</b>	9	—	10,273,887
<b>Total assets</b>		<b>58,225,164</b>	72,212,294
<b>Current liabilities</b>			
Trade and other payables	19	<b>(1,332,491)</b>	(1,240,453)
Total liabilities		<b>(1,332,491)</b>	(1,240,453)
<b>Net current assets</b>		<b>5,922,925</b>	15,558,143
<b>Net assets</b>		<b>56,892,673</b>	70,971,841
<b>Equity</b>			
Share capital	22	<b>1,792,015</b>	1,782,605
Share premium account	23	<b>30,387,514</b>	30,279,301
Share-based payment reserve	23	<b>1,852,752</b>	1,366,237
Merger reserve	23	<b>46,206,390</b>	46,206,390
Accumulated loss	23	<b>(23,345,998)</b>	(8,662,692)
<b>Total equity</b>		<b>56,892,673</b>	70,971,841

The financial statements were approved by the Board of Directors and authorised for issue on 25 June 2008. They were signed on its behalf by:

**Gordon Lewis**  
CHIEF EXECUTIVE

CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
<b>Net cash used in operating activities</b>	24	<b>(4,308,710)</b>	(2,906,521)
<b>Investing activities</b>			
Interest received		<b>218,365</b>	581,152
Purchase of property, plant and equipment		<b>(421,470)</b>	(6,649,068)
Expenditure on intangible assets		<b>(2,035,970)</b>	(6,017,138)
Net proceeds from sale of property, plant and equipment		<b>7,004,585</b>	—
<b>Net cash from/(used) in investing activities</b>		<b>4,765,510</b>	(12,085,054)
<b>Financing activities</b>			
Interest paid		—	(26)
<b>Net cash used in financing activities</b>		—	(26)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>456,800</b>	(14,991,601)
<b>Cash and cash equivalents at beginning of year</b>		<b>6,354,102</b>	21,345,703
<b>Cash and cash equivalents at end of year</b>		<b>6,810,902</b>	6,354,102

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

## 1. Going concern

The Directors' assumption over the capital costs and timing of production from the Gedabek development are crucial to the Group meeting its forecast cash flows for the year to 30 June 2009. Should the costs of the development increase, production be delayed or the revenues fall short of expectations there may be insufficient cash flow for the Group to manage its day to day operations without seeking and relying on further financing, which may or may not be available. Therefore a material uncertainty exists which may cast significant doubt on the entity's ability to continue as a going concern and that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

After making enquiries, the Directors have formed a judgement, which assumes at the time of approving the financial statements, that there is a reasonable expectation that the Group can access adequate resources to continue in operation and remain in existence for the foreseeable future. The current forecasts demonstrate that the existing cash resources and available debt provide sufficient funds to complete the construction of the mine at Gedabek. The Board is aware of the current inflationary pressures in the mining industry and the risk of delays to the development. If there are either cost overruns or delays which result in a funding shortfall then the Board will have to take steps to ensure that there is adequate funding in the period to 30 June 2009. The major shareholders on the Board have confirmed that they would be willing to provide additional funding in such an event. The Directors also consider that further working capital facilities could be negotiated with the IBA. The Company is seeking the approval of the shareholders, at the AGM on 23 July 2008 to increase the borrowing capacity under the Articles of Association to four times the Adjusted Capital and Reserves and also to increase the ability to allot for cash up to 10% of the current share capital. Approval of these Special Resolutions will be necessary to facilitate the ability to raise additional funds. The Board is expecting that Gedabek will be in production before the end of 2008. In addition, the Directors consider that there are various costs in relation to the mining activities which could be deferred without an adverse impact on the operations.

For these reasons the Directors continue to adopt the going concern basis of preparing the financial statements.

## 2. General information

Anglo Asian Mining PLC is a public limited Company incorporated in the Great Britain under the Companies Act 1985. The Company's ordinary shares are traded on the Alternative Investment Market of the London Stock Exchange. The nature of the Group's operations and its principal activities are set out in the directors' report on pages 10 to 12.

These financial statements are presented in US dollars. Foreign operations are included in accordance with the policies set out in note 2.

## 3. Significant accounting policies

### BASIS OF PREPARATION

For all periods up to and including the year ended 31 December 2006, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). These financial statements, for the year ended 31 December 2007, are the first that the Group has prepared in accordance with IFRS as adopted by the European Union ("EU"). The financial statements have also been prepared in accordance with International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

As a result of the conversion from UK GAAP to IFRS, no adjustments have been required to be made to the comparatives for the year ended 31 December 2006, nor the balance sheet at the transition date of 1 January 2006. Although certain presentational changes have been made in order to present the comparatives in accordance with the requirements of IFRS there is no requirement to present the detailed disclosures set out in IFRS 1 First-time adoption of IFRS. The Group has utilised the exemptions that are available under IFRS 1 in relation to currency translations where by cumulative translation differences are deemed to be zero at the date of transition to IFRS.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

### NEW STANDARDS AND INTERPRETATIONS NOT APPLIED

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations
IFRIC 11 (IFRS 2)	Group and Treasury Share Transactions
IFRS 3	Business Combinations (revised January 2008)
IFRS 8	Operating Segments
IAS 1	Presentation of Financial Statements (revised September 2007)
IAS 23	Borrowing Costs (revised March 2007)
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14 IAS 19	The limit on a Defined Benefit Asset, Minimum Funding Requirements, and their Interaction.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

### 3. Significant accounting policies continued

#### **BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### **LEASING**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

#### **FOREIGN CURRENCIES**

The individual financial statements of each Group company are maintained in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US dollars, the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

#### **FOREIGN CURRENCIES CONTINUED**

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### **OPERATING LOSS**

Operating loss is stated before finance income, finance costs and other gains and losses.

#### **TAXATION**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

#### **INTANGIBLE ASSETS**

##### **Exploration and evaluation assets**

The costs of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights and costs incurred in exploration and evaluation activities, are capitalised as intangible assets as part of exploration and evaluation assets.

Exploration and evaluation assets are carried forward during the exploration and evaluation stage and are assessed for impairment in accordance with the indicators of impairment as set out in IFRS 6 Exploration for and Evaluation of Mineral Resources. In circumstances where a property is abandoned, the cumulative capitalised costs relating to the property are written off in the period. No amortisation is charged prior to the commencement of production.

When commercial production commences, exploration, evaluation and development costs previously capitalised are amortised over the commercial reserves of the mining property on a unit of production basis.

##### **Mining rights**

Mining rights are carried at cost to the Group and less any provisions for impairments which result from evaluations and assessments of potential mineral recoveries.

#### **PROPERTY, PLANT AND EQUIPMENT**

Buildings and plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2007

### 3. Significant accounting policies continued

#### PROPERTY, PLANT AND EQUIPMENT CONTINUED

Depreciation is provided on all depreciable property, plant and equipment at rates calculated to write-off the cost of each asset over its expected useful life as follows:

Leasehold improvements	Over the life of lease
Plant, equipment and motor vehicles	25% decreasing balance
Office and computer equipment	25% decreasing balance
Temporary buildings	25% decreasing balance

The cost of maintenance, repairs and replacement of minor items of property, plant and equipment are charged to the income statement as incurred. Renewals and asset improvements are capitalised.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the financial statements. Any resulting gains or losses are included in the income statement.

#### IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

#### ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale and completion should be expected within one year from the date of classification.

#### FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

##### Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently carried at cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

##### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### 3. Significant accounting policies continued

#### EMPLOYEE LEAVE BENEFITS

Liabilities for wages and salaries, including non-monetary benefits and accrued but unused annual leave are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

#### RETIREMENT BENEFIT COSTS

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 income statement.

#### SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2 Share-based Payment. IFRS 2 has been applied to all grants of equity instruments.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant 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 and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes model. 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.

#### CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

#### Impairment of tangible and intangible assets

The assessment of tangible and intangible assets for any indications of impairment involves judgement. If an indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use.

#### Deferred tax assets

The assessment of availability of future taxable profits involves judgement. A deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

#### KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Group is the Black-Scholes pricing model.

### 4. Segment information

The operations of the Group comprise one reportable segment with the primary and secondary segments identical, being the exploration and development of gold and copper projects in Azerbaijan.

Operations in Azerbaijan comprise of exploration and development projects for gold and copper at eight development properties in three separate mining areas.

The unallocated entries in the segment note relate to activities in the United Kingdom which comprise of administration and treasury functions carrying out general expense processing, remuneration of Directors and monitoring and placing of Group deposits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2007

## 4. Segment information continued

The following table presents losses and certain asset and liability information regarding the Group's reportable segment for the years ended 31 December 2007 and 2006.

Year ended 31 December	2007		2006	
	Azerbaijan US\$	Consolidated US\$	Azerbaijan US\$	Consolidated US\$
Segment result	<b>(10,935,400)</b>	<b>(10,935,400)</b>	(1,487,121)	(1,487,121)
Unallocated expenses		<b>(3,966,271)</b>		(3,522,078)
<b>Group operating loss</b>		<b>(14,901,671)</b>		(5,009,199)
Net interest income		<b>218,365</b>		581,126
<b>Loss before taxation</b>		<b>(14,683,306)</b>		(4,428,073)
Tax expense		—		—
<b>Loss for the year</b>		<b>(14,683,306)</b>		(4,428,073)
<b>Assets and liabilities</b>				
Segment assets	<b>51,159,754</b>	<b>51,159,754</b>	55,381,578	55,381,578
Unallocated assets		<b>7,065,410</b>		16,830,716
<b>Total assets</b>		<b>58,225,164</b>		72,212,294
Segment liabilities	<b>68,958</b>	<b>68,958</b>	308,891	308,891
Unallocated liabilities		<b>1,263,533</b>		931,562
<b>Total liabilities</b>		<b>1,332,491</b>		1,240,453
<b>Other segment information</b>				
Capital expenditure:				
Property, plant and equipment	<b>421,470</b>	<b>421,470</b>	710,394	6,649,068
Intangible assets	<b>2,035,970</b>	<b>2,035,970</b>	6,017,138	6,017,138
Depreciation	<b>205,340</b>	<b>209,172</b>	142,563	148,615
Write-down of intangible assets	<b>6,692,210</b>	<b>6,692,210</b>	185,103	185,103
Share-based payment expense	—	<b>486,515</b>	—	776,668
Write-down of assets held for sale	—	<b>3,273,887</b>	—	—
Gain on disposal of non-current assets	—	<b>4,575</b>	—	—

## 5. Operating loss

	Notes	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Operating loss is stated after charging:			
Depreciation on property, plant and equipment – owned	15	<b>209,172</b>	148,615
Impairment of intangible assets	8, 14	<b>6,692,218</b>	185,103
Share-based payment charge	25	<b>486,515</b>	776,668

### The analysis of auditors' remuneration is as follows:

Fees payable to the Company's auditors for the audit of the Group's annual accounts	<b>93,746</b>	87,857
The audit of the Company's subsidiaries pursuant to legislation	<b>4,000</b>	3,500
<b>Total audit fees</b>	<b>97,746</b>	91,357
Tax services	<b>23,700</b>	29,458
<b>Total non-audit services</b>	<b>23,700</b>	29,458

The audit fees for the parent company were \$19,856 (2006: \$18,555).



## 6. Remuneration of Directors

Year ended 31 December 2007

	Salary US\$	Bonus US\$	Consultancy US\$	Fees US\$	Pension US\$	Benefits US\$	Total US\$
Ross Bhappu <sup>(a)</sup>	—	—	—	—	—	—	—
Tim Eggar	—	—	—	44,040	—	—	44,040
Gordon Lewis <sup>(b)</sup>	389,072	97,915	—	—	30,000	40,097	557,084
Graham Mascall <sup>(c)</sup>	—	—	—	60,192	—	—	60,192
Richard Round <sup>(b)</sup>	113,572	40,036	—	—	19,733	4,525	177,866
John Sununu	—	—	—	36,072	—	—	36,072
Khosrow Zamani	—	—	—	49,358	—	—	49,358
Reza Vaziri	—	—	308,042	28,025	—	—	336,067
<b>Total</b>	<b>502,644</b>	<b>137,951</b>	<b>308,042</b>	<b>217,687</b>	<b>49,733</b>	<b>44,622</b>	<b>1,260,679</b>

(a) Fees of \$28,025 in relation to the services of Ross Bhappu as a Non-executive Director for the period to 31 December 2007 are payable to RCF Management LLC a Company related to but not controlled by Ross Bhappu.

(b) There were two Directors in a defined contribution scheme during the period (2006: three).

(c) The fees payable to Graham Mascall have now terminated.

(d) Directors' fees amounting to \$191,503 included above were paid in shares.

Year ended 31 December 2006

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

(a) Fees of \$26,987 in relation to the services of Ross Bhappu as a Non-executive Director for the period to 31 December 2006 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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2007

## 7. Staff numbers and costs

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

	Year ended 31 December 2007 number	Year ended 31 December 2006 number
Management and administration	31	41
Processing and exploration	82	139
Other	—	24
<b>Total</b>	<b>113</b>	<b>204</b>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Wages and salaries	3,377,343	3,513,266
Social security costs	243,695	420,000
Pension costs	49,733	48,262
	<b>3,670,771</b>	3,981,528
Less: salary costs capitalised as exploration and evaluation expenditure	<b>(799,318)</b>	(1,208,539)
<b>Total employee costs</b>	<b>2,871,453</b>	<b>2,772,989</b>

## 8. Other expenses

During the year there have been impairment charges taken against capitalised intangible expenditure. Analysis of these expenses is provided below:

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Write-down of capitalised exploration and evaluation expenditure	1,692,218	185,103
Write-down of mining rights	5,000,000	—
	<b>6,692,218</b>	<b>185,103</b>

## 9. Assets classified as held for sale

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Cost as at 1 January	10,273,887	—
Additions	—	10,273,887
Disposal	<b>(10,273,887)</b>	—
As at 31 December	—	10,273,887
<b>Impairment</b>		
As at 1 January	—	—
Impairment	3,273,887	—
Disposal	3,273,887	—
As at 31 December	—	—
<b>Carrying amount</b>		
As at 31 December	—	10,273,887

In its 2007 interim results, the Group announced a write-down of the CIL plant of \$3,273,887 as discussions with interested parties showed that the full carrying value of the plant was unlikely to be recovered through a sale.

On 15 October 2007 the Group entered into an agreement with Celtic Resources Holdings PLC, a gold producer, to dispose of its CIL plant for a gross consideration of \$7,500,000 (less expenses) previously being classified under assets held for sale. The CIL plant constitutes a processing plant, including crushing equipment, three grinding mills and carbon in leach gold treatment equipment.

## 10. Finance income

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Interest receivable from short-term bank deposits	<b>218,365</b>	581,152

## 11. Finance costs

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Bank interest	—	26

## 12. Taxation

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
<b>UK Corporation tax</b>		
– Current year	—	—
– Prior year	—	—
<b>Foreign tax</b>		
– Current year	—	—
– Prior year	—	—
Total current income tax	—	—
<b>Deferred tax (note 21)</b>	—	—
	—	—

Corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Group tax charge for the year can be reconciled to the loss per the income statement as follows:

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
<b>Loss before tax:</b>	<b>(14,683,306)</b>	(4,428,073)
Tax at the UK corporation tax rate of 30% (2006: 30%)	<b>4,404,991</b>	1,328,422
Expenses not deductible for tax purposes	<b>(2,804,154)</b>	(462)
Prior year adjustment	—	335,237
Unrecognised tax losses	<b>(1,685,700)</b>	(1,806,185)
Other	<b>84,863</b>	142,988
	—	—

### FACTORS THAT MAY AFFECT FUTURE CURRENT AND TOTAL TAX CHARGES

The unrecognised deferred tax asset (note 21) may affect the future current and total tax charges if the recoverability of the deferred tax assets is considered likely in future periods.

## 13. Loss per share

The statutory loss per share of 14.80 cents (2006: 4.47 cents) has been based on a weighted average number of shares in issue of 99,224,823 (2006: 99,171,800) and a loss of \$14,683,306 (2006: \$4,428,073).

Basic and dilutive EPS are the same because the only outstanding share options are anti-dilutive as the Group has made a loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2007

14. Intangible assets

EVALUATION AND EXPLORATION EXPENDITURE

	Piyazbashi US\$	Shakardara US\$	Misdag/ Agyurt US\$	Shalala US\$	Diakhchay US\$	Gedabek US\$	Gosha US\$	Total US\$
<b>Cost</b>								
As at 1 January 2006	1,098,474	41,658	41,658	—	—	270,255	174,606	1,626,651
Additions	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
Additions	—	—	—	—	—	1,940,527	95,443	2,035,970
Provision for impairment	(1,111,286)	—	(580,932)	—	—	—	—	(1,692,218)
<b>As at 31 December 2007</b>	<b>1,000,000</b>	<b>—</b>	<b>—</b>	<b>58,663</b>	<b>39,264</b>	<b>6,250,641</b>	<b>453,870</b>	<b>7,802,438</b>

MINING RIGHTS

Cost

As at 31 December 2006	46,925,262
Provision for impairment	(5,000,000)
<b>As at 31 December 2007</b>	<b>41,925,262</b>

Total intangible assets

As at 31 December 2006	54,383,948
<b>As at 31 December 2007</b>	<b>49,727,700</b>

Provisions have been made for impairment against the carrying value of capitalised exploration and evaluation expenditure relating to Piyazbashi and Misdag/Agyurt and against mining rights relating to Ordubad following an impairment review. The impairment loss has been recognised as an expense in the income statement for the year.

15. Property, plant and equipment

	Temporary buildings US\$	Plant and equipment US\$	Motor vehicles US\$	Office equipment US\$	Leasehold improvements US\$	Assets under construction US\$	Total US\$
<b>Cost</b>							
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	161,649	725,181
As at 31 December 2006	84,286	116,452	127,852	361,502	364,628	161,649	1,216,369
Additions	215,521	19,028	290	44,961	73,080	68,590	421,470
<b>As at 31 December 2007</b>	<b>299,807</b>	<b>135,480</b>	<b>128,142</b>	<b>406,463</b>	<b>437,708</b>	<b>230,239</b>	<b>1,637,839</b>
<b>Accumulated depreciation and impairment</b>							
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)
Charge for year	(25,449)	(23,345)	(13,064)	(65,371)	(81,943)	—	(209,172)
<b>As at 31 December 2007</b>	<b>(33,878)</b>	<b>(55,925)</b>	<b>(62,318)</b>	<b>(149,573)</b>	<b>(94,097)</b>	<b>—</b>	<b>(395,791)</b>
<b>Carrying amount</b>							
As at 31 December 2006	75,857	83,872	78,598	277,300	352,474	161,649	1,029,750
<b>As at 31 December 2007</b>	<b>265,930</b>	<b>79,554</b>	<b>65,824</b>	<b>256,890</b>	<b>343,611</b>	<b>230,239</b>	<b>1,242,048</b>

The capital commitments by the Group have been disclosed in note 26.

16. Subsidiary undertakings

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note 5 in the Company's financial statements.

17. Trade and other receivables

	As at 31 December 2007 US\$	As at 31 December 2006 US\$
Prepayments	332,203	126,318
HMRC	1,554	19,784
Other receivables	110,757	24,505
	<b>444,514</b>	<b>170,607</b>

The carrying amount of trade and other receivables approximates to their fair value.

## 18. Cash and cash equivalents and short-term deposits

	As at 31 December 2007 US\$	As at 31 December 2006 US\$
Cash and cash equivalents	6,810,902	6,354,102

Short-term deposits are those with an original maturity of three months or more and hence are excluded from cash and cash equivalents and are recognised separately in the balance sheet.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

## 19. Trade and other payables

	As at 31 December 2007 US\$	As at 31 December 2006 US\$
Trade creditors	76,263	172,889
Other payables and accruals	1,256,228	1,067,564
	<b>1,332,491</b>	<b>1,240,453</b>

Trade creditors and other payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Trade creditors are non-interest bearing and are normally settled on 30 day terms. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 20. Financial instruments

### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and other short-term deposits. The main purpose of these financial instruments is to finance the Group operations. The Group has other financial instruments, such as trade and other receivables and trade and other payables, 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 2007. The Board will review the need for the use of derivative financial instruments in the future.

### INTEREST RATE RISK AND LIQUIDITY RISK MANAGEMENT

Shortly after the IPO in 2005, the only debt in the Group was repaid and there is no debt as at 31 December 2007. 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 2007.

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

### INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS

The following table sets out the carrying amount, by maturity of the Group's financial instruments that are exposed to interest rate risk:

#### Year ended 31 December 2007

Floating rate	Within 1 year	More than 1 year	Total
Short-term deposits			
Cash and cash equivalents	6,810,902	—	6,810,902

#### Year ended 31 December 2006

Floating rate	Within 1 year	More than 1 year	Total
Short-term deposits			
Cash and cash equivalents	6,354,102	—	6,354,102

### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the balance sheet date. For floating rate cash deposits, the analysis is prepared assuming the amount of deposits outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2007 would decrease/increase by \$20,825 (2006: decrease/increase by \$69,250). This is mainly attributable to the Group's exposure to interest rates on its floating rate cash deposits.

### Credit risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2007

## 20. Financial instruments continued

### INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS CONTINUED

#### Foreign currency management

The presentational currency of the Group is US dollars. The Group is exposed to currency risk due to movements in foreign currencies relative to the US dollar affecting foreign currency transactions and balances.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007 US\$	2006 US\$	2007 US\$	2006 US\$
UK sterling	<b>223,308</b>	356,140	<b>162,009</b>	355,440
Azerbaijan manats	<b>17,108</b>	19,376	<b>67,451</b>	75,557
Other	<b>3,867</b>	36,893	—	62

#### Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of United Kingdom (UK sterling) and the currency of Azerbaijan (Azerbaijan manats).

The following table details the Group's sensitivity to a 10% increase and decrease in the US dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the US dollar strengthens 10% against the relevant currency. For a 10% weakening of the US dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be reversed.

	UK sterling impact		Azerbaijan manats impact	
	2007 US\$	2006 US\$	2007 US\$	2006 US\$
Profit/(loss)	<b>6,132</b>	70	<b>(5,034)</b>	(5,618)

#### Market risk

Exposure to interest rate fluctuations is minimal as the Group currently has no debt. Interest rates on UK 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.

## 21. Deferred tax

At the balance sheet date, the Group has unused tax losses of \$4,369,449 (2006: \$2,683,749) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Unused tax losses may be carried forward indefinitely.

## 22. Share capital

	As at 31 December 2007 £	As at 31 December 2006 £
Authorised: 600,000,000 ordinary shares of 1p each	<b>6,000,000</b>	6,000,000
	US\$	US\$
Issued and fully paid: 99,621,880 ordinary shares of 1p each (2006: 99,171,800 ordinary shares of 1p each)	<b>1,792,015</b>	1,782,605

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

#### Share options

The Group has granted options to subscribe for the Company's shares (note 25).

### 23. Reconciliation of changes in equity

	Share capital US\$	Share premium US\$	Share-based payment reserve US\$	Merger reserve US\$	Accumulated loss US\$	Total equity US\$
At 1 January 2006	1,782,605	30,279,301	589,569	46,206,390	(4,059,003)	74,798,862
Share-based payment	—	—	776,668	—	—	776,668
Currency translation differences	—	—	—	—	(175,616)	(175,616)
Loss for the year	—	—	—	—	(4,428,073)	(4,428,073)
At 31 December 2006	1,782,605	30,279,301	1,366,237	46,206,390	(8,662,692)	70,971,841
Shares issued	9,410	108,213	—	—	—	117,623
Share-based payment	—	—	486,515	—	—	486,515
Loss for the year	—	—	—	—	(14,683,306)	(14,683,306)
<b>At 31 December 2007</b>	<b>1,792,015</b>	<b>30,387,514</b>	<b>1,852,752</b>	<b>46,206,390</b>	<b>(23,345,998)</b>	<b>56,892,673</b>

#### SHARE-BASED PAYMENT RESERVE

This reserve is used to record the value of equity benefits provided to Directors and senior employees of the Group from time to time as part of the consideration paid. See note 25 for further details.

#### MERGER RESERVE

The merger reserve was created in accordance with the merger relief provisions under Section 131 of the Companies Act 1985 (as amended) relating to accounting for group reconstructions involving the issue of shares at a premium. In preparing Group consolidated financial statements, the amount by which the base value of the consideration for the shares allotted exceeded the aggregate nominal value of those shares was recorded within a merger reserve on consolidation, rather than in the share premium account.

### 24. Notes to the cash flow statement

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Operating loss	<b>(14,901,671)</b>	(5,009,199)
Adjustments for:		
Depreciation of property, plant and equipment	<b>209,172</b>	148,615
Gain on disposal of property, plant and equipment	<b>(4,585)</b>	—
Share-based payment expense	<b>486,515</b>	776,668
Exchange loss on non-operating activities	—	(175,616)
Write-down of fixed asset held for sale	<b>3,273,887</b>	—
Shares issued in exchange for salaries	<b>117,623</b>	—
Increase in provisions	<b>6,692,218</b>	185,103
Operating cash flows before movements in working capital	<b>(4,126,841)</b>	(4,074,429)
(Increase)/decrease in trade and other receivables	<b>(273,907)</b>	725,668
Increase in trade and other payables	<b>92,038</b>	442,240
Cash used in operations	<b>(4,308,710)</b>	(2,906,521)
Income taxes paid	—	—
Net cash used in operating activities	<b>(4,308,710)</b>	(2,906,521)

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and short-term deposits with a maturity of three months or less.

### 25. Share-based payments

#### EQUITY-SETTLED SHARE OPTIONS

The Company operates a share option scheme for Directors and senior employees of the Company. Options are granted at a price agreed at the time of the grant. The vesting periods are up to three years. Options are exercisable at a price equal to the closing quoted market price of the Company's shares on the date of the Board approval to grant options. Options are forfeited if the employee leaves the Group and the options are not exercised within three months from leaving date. Details of the share options outstanding during the year are as follows.

	2007		2006	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
Outstanding at beginning of year	<b>7,888,961</b>	<b>0.60</b>	4,616,217	0.78
Granted during the year	<b>2,600,000</b>	<b>0.12</b>	4,150,339	0.43
Lapsed during the year	<b>(2,314,008)</b>	<b>0.48</b>	(877,595)	0.77
Outstanding at 31 December	<b>8,174,953</b>	<b>0.48</b>	7,888,961	0.60
Exercisable at 31 December	<b>3,882,423</b>	<b>0.72</b>	3,026,314	0.79

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2007

## 25. Share-based payments continued

### EQUITY-SETTLED SHARE OPTIONS CONTINUED

The options outstanding at 31 December 2007 had a weighted average exercise price of 0.48 pence and a weighted average remaining contractual life of nine years. In the year ended 31 December 2007, options were granted on 1 June and 27 July. The aggregate of the estimated fair values of the options granted on those dates is £119,749 (\$234,708). In 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).

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

#### Granted on 21 July 2007

Weighted average share price	<b>0.12</b>
Weighted average exercise price	<b>0.12</b>
Expected volatility	<b>64%</b>
Expected life	<b>2 years</b>
Risk free rate	<b>4.50%</b>

Expected volatility was determined by calculating the historical volatility of the Company'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.

The weighted average fair value of options granted on 21 July 2007 is £0.05.

#### Granted on 1 June 2007

Weighted average share price	<b>0.16</b>
Weighted average exercise price	<b>0.16</b>
Expected volatility	<b>64%</b>
Expected life	<b>2 years</b>
Risk free rate	<b>4.50%</b>

Expected volatility was determined by calculating the historical volatility of the Company'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.

The weighted average fair value of options granted on 1 June 2007 is £0.06.

#### Granted on 1 July 2006

Weighted average share price	0.42
Weighted average exercise price	0.35
Expected volatility	64%
Expected life	2 years
Risk free rate	4.41%

Expected volatility was determined by calculating the historical volatility of the Company'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.

The weighted average fair value of options granted on 1 July 2006 is £0.16.

#### Granted on 12 April 2006

Weighted average share price	0.42
Weighted average exercise price	0.42
Expected volatility	64%
Expected life	2 years
Risk free rate	4.41%

Expected volatility was determined by calculating the historical volatility of the Company'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.

The weighted average fair value of options granted on 12 April 2006 is £0.16.

#### Granted on 13 March 2006

Weighted average share price	0.4
Weighted average exercise price	0.4
Expected volatility	64%
Expected life	2 years
Risk free rate	4.41%

Expected volatility was determined by calculating the historical volatility of the Company'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.

The weighted average fair value of options granted on 13 March 2006 is £0.12.



## 25. Share-based payments continued

### TOTAL SHARE-BASED PAYMENT EXPENSE RECOGNISED BY THE GROUP

The Group recognised total expenses of \$486,515 and \$776,668 related to equity-settled share-based payment transactions in 2007 and 2006 respectively.

The cumulative amount recognised in equity relating to share-based payments at the balance sheet date was \$1,852,752 (2006: \$1,366,237).

## 26. Contingencies and commitments

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 at 31 December 2007.

There were no capital commitments at 31 December 2007.

## 27. Events after the balance sheet date

The following subsequent events relate to the period from 31 December 2007 to the date of approval of the financial statements on 25 June 2008.

The Group has obtained a credit facility with the International Bank of Azerbaijan of \$5 million repayable after three years, expiring on 14 January 2011, with an interest rate of up to 15%. Repayments in equal monthly instalments are due from February 2010.

The International Bank of Azerbaijan has also agreed a credit facility of \$20 million at an all inclusive interest rate of 15%. The facility agreement is four years from 15 February 2008 with a two year grace period to repay the monies loaned. In 2010 \$8 million is due to be repaid in quarterly instalments, and in 2011 \$5 million and \$7 million are repayable in March and June respectively. There is no penalty for early repayment.

## 28. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

### TRADING TRANSACTIONS

During the years 2007 and 2006, there were no trading transactions between Group companies and related parties who are not members of the Group.

### OTHER RELATED PARTY TRANSACTIONS

a) Mr Charles Hancock was a Director of and has a controlling interest in Anglo-Suisse Capital Limited. During 2006 services were provided by Anglo-Suisse Capital Limited to the Company at arm's length as follows:

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Corporate finance and administrative services, including provision of office facilities	—	28,360

As at 31 December 2007 the Company owed Anglo-Suisse Capital Limited \$nil (2006: \$20,520).

b) Mr Reza Vaziri retains an indirect interest in the lease of the office in Baku, Azerbaijan. The cost of the lease in the year was \$93,904 (2006: \$98,766).

c) Shares issued to Directors are disclosed in the directors' report.

### REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the Directors who are the only key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Short-term employee benefits	1,210,946	1,092,237
Post-employment benefits	49,733	48,262
Share-based payment	482,998	740,282
	<b>1,743,677</b>	<b>1,880,781</b>

## 29 Transition to IFRS

The Group's financial statements for the year ended 31 December 2007 are the first annual financial statements that comply with IFRS. The adoption of IFRS has not required any adjustments to the financial statements for the previous year under UK GAAP.

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

We have audited the parent company financial statements of Anglo Asian Mining PLC for the year ended 31 December 2007 which comprise the balance sheet and the related notes 1 to 17. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Anglo Asian Mining PLC for the year ended 31 December 2007. That report is modified by the inclusion of an emphasis of matter.

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 parent company 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 parent company 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 parent company financial statements give a true and fair view and whether the parent company financial statements have been 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 parent company financial statements.

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 parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company 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 parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, 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 parent company 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 parent company financial statements.

## Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the parent company 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 parent company financial statements.

## Emphasis of matter – going concern and amounts owed by subsidiary undertakings

Without qualifying our opinion we draw attention to the disclosures made in note 1 of the financial statements concerning the Company's ability to continue as a going concern and the recoverability of amounts owed by subsidiary undertakings. The Company's ability to continue as a going concern is dependant upon the Group's ability to continue as a going concern. These conditions along with other matters set out in note 1 indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and the recoverability of amounts owed by subsidiary undertakings. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern as it is not practicable to determine or quantify them.

**Deloitte & Touche LLP**  
**CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS**  
London  
25 June 2008

COMPANY BALANCE SHEET  
AS AT 31 DECEMBER 2007

	Notes	2007 US\$	2006 US\$
<b>Fixed assets</b>			
Tangible assets	3	<b>164,801</b>	10,442,520
Investments	4	<b>1,325,007</b>	1,325,007
		<b>1,489,808</b>	11,767,527
<b>Current assets</b>			
Debtors – amounts falling due within one year	6	<b>18,615,802</b>	13,345,427
Cash at bank and in hand	7	<b>6,750,721</b>	6,236,950
		<b>25,366,523</b>	19,582,377
Creditors – amounts falling due within one year	8	<b>(1,248,559)</b>	(916,465)
<b>Net current assets</b>		<b>24,117,964</b>	18,665,912
<b>Net assets</b>		<b>25,607,772</b>	30,433,439
<b>Capital and reserves</b>			
Called up share capital	10	<b>1,792,017</b>	1,782,605
Share premium account	11	<b>30,387,514</b>	30,279,301
Accumulated loss	11	<b>(6,571,759)</b>	(1,628,467)
<b>Capital employed</b>		<b>25,607,772</b>	30,433,439

These financial statements were approved by the Board of Directors on 25 June 2008 and were signed on its behalf by:

**Gordon Lewis**  
CHIEF EXECUTIVE

# NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

## 1. Significant accounting policies and going concern

### 1a. Going concern

As detailed in note 1 to the Group accounts on page 18, there is a material uncertainty which may cast significant doubt on the Group's, and therefore the Company's ability to continue as a going concern. As a consequence the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. In addition, these uncertainties could result in the subsidiaries not being able to discharge their liabilities to the Company which at 31 December 2007 amounted to \$18,500,516. For the reasons set out in note 1 to the Group accounts, the Directors have formed a judgement which assumes at the time of approving these financial statements that the amounts owed by the subsidiary undertakings will be recoverable and that it is appropriate to continue to adopt the going concern basis.

### 1b. Significant accounting policies

#### BASIS OF PREPARATION

The parent company financial statements of Anglo Asian Mining PLC (the "Company") are presented as required by the Companies Act 1985 and were approved for issue on 25 June 2008.

The financial statements are prepared under the historical cost convention and are prepared in accordance with United Kingdom Generally Accepted Practice.

No profit and loss account is presented by the Company as permitted by Section 230 of the Companies Act 1985 and the Company has taken the exemption under FRS 1 not to present a cash flow statement.

The Company has taken advantage of the exemption in paragraph 2D of FRS 29 Financial Instruments: Disclosures and has not disclosed information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 Financial Instruments: Disclosures.

The Company has taken advantage of the exemption in paragraph 36 of FRS 8 Related Party Disclosures and has not disclosed information required by that standard, as the Group's consolidated financial statements in which the Company is included, provide equivalent disclosures for the Group.

#### TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost included costs directly attributable to making the asset capable of operating as intended. Borrowing costs attributable to assets under construction are recognised as an expense when incurred.

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:

Office and computer equipment	25% decreasing balance
-------------------------------	------------------------

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### INVESTMENTS

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

#### 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.

#### DEBTORS

Debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the Company will not be able to recover the balances in full.

#### DEFERRED TAXATION

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.

#### SHARE-BASED PAYMENTS

The Company 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.

The Company 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 Company'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. Loss attributable to members of the parent company

The loss dealt with in the financial statements of the parent company is \$5,429,807 (2006: \$2,133,204).

### 3. Tangible fixed assets

	Office equipment US\$	Assets held for disposal US\$	Assets under construction US\$	Total US\$
<b>Cost</b>				
As at 1 January 2007	20,070	10,273,887	154,615	10,448,572
Disposals	—	(10,273,887)	—	(10,273,887)
<b>As at 31 December 2007</b>	<b>20,070</b>	<b>—</b>	<b>154,615</b>	<b>174,685</b>
<b>Accumulated depreciation</b>				
As at 1 January 2007	(6,052)	—	—	(6,052)
Charge for year	(3,832)	—	—	(3,832)
<b>As at 31 December 2007</b>	<b>(9,884)</b>	<b>—</b>	<b>—</b>	<b>(9,884)</b>
<b>Net book value</b>				
As at 31 December 2006	14,018	10,273,887	154,615	10,442,520
<b>As at 31 December 2007</b>	<b>10,186</b>	<b>—</b>	<b>154,615</b>	<b>164,801</b>

### 4. Investments

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Shares in subsidiary undertakings		
Anglo Asian Operations Limited	<b>1,325,007</b>	1,325,007

### 5. List of subsidiaries

Details of the Company's subsidiaries at 31 December 2007 are as follows:

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

### 6. Debtors

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
<b>Amounts falling due within one year:</b>		
Prepayments	<b>89,694</b>	112,072
HMRC	<b>1,544</b>	19,784
Other debtors	<b>24,048</b>	18,028
Amounts owed by subsidiary undertakings	<b>18,500,516</b>	13,195,543
	<b>18,615,802</b>	13,345,427

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2007

## 7. Cash

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

## 8. Creditors

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
<b>Amounts falling due within one year:</b>		
Trade creditors	<b>61,422</b>	102,432
Other creditors	<b>22,738</b>	74,258
Accruals	<b>1,164,399</b>	739,775
	<b>1,248,559</b>	916,465

## 9. Deferred taxation

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
The elements of unrecognised deferred taxation are as follows:		
Tax losses	<b>896,407</b>	497,482
Unrecognised deferred tax asset	<b>896,407</b>	497,482

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.

## 10. Share capital

	2007		2006	
	Number	£	Number	£
<b>Authorised</b>				
Ordinary shares of 1p each	<b>600,000,000</b>	<b>6,000,000</b>	600,000,000	6,000,000
	Number	US\$	Number	US\$
<b>Allotted and fully paid</b>				
At the beginning of the year	<b>99,171,800</b>	<b>1,782,605</b>	99,171,800	1,782,605
At the end of the year	<b>99,621,880</b>	<b>1,792,017</b>	99,171,800	1,782,605

## 11. Reconciliation of shareholders' funds and movements on reserves

	Share capital US\$	Share premium account US\$	Accumulated loss US\$	Shareholders' funds US\$
As at 1 January 2007	1,782,605	30,279,301	(1,628,467)	30,433,439
Loss for the year	—	—	(5,429,807)	(5,429,807)
Share issues	9,412	108,213	—	117,625
Share-based payment	—	—	486,515	486,515
<b>As at 31 December 2007</b>	<b>1,792,017</b>	<b>30,387,514</b>	<b>(6,571,759)</b>	<b>25,607,772</b>

## 12. Share-based payments

### EQUITY-SETTLED SHARE OPTION SCHEME

Details in relation to the Company's equity-settled share option scheme is given in note 25 to the consolidated financial statements.

## 13. 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.

## 14. Subsequent events

There were no subsequent events in the period from 31 December 2007 to the date of approval of these financial statements on 25 June 2008.

## 15. Auditor's remuneration

The Company paid \$23,700 (2006: \$29,458) to its auditors in respect of the audit of the financial statements of the Company.

Fees paid to Deloitte & Touche LLP and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of Anglo Asian Mining PLC because Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

## 16. Related parties

The information in relation to related parties is given in note 28 to the consolidated financial statements.

## 17. Staff numbers and costs

The average numbers of persons employed by the Company (including Directors) during the year analysed by category was as follows:

	Year ended 31 December 2007 number	Year ended 31 December 2006 number
Management and administration	5	8

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2007 US\$	Year ended 31 December 2006 US\$
Wages and salaries	311,691	589,357
Social security costs	31,122	77,496
Pension costs	19,733	23,422
Total employee costs	362,546	690,275

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the AGM of the Company will be held at the offices of Hammonds LLP, 7 Devonshire Square, London EC2M 4YH on Wednesday 23 July 2008 at 9.30am at which the following matters will be dealt with:

## Ordinary business

To consider and if thought fit to pass the following resolutions which will be proposed as ordinary resolutions.

- 1 To receive the Company's report and accounts for the financial year ended 31 December 2007 together with the auditors' report on those accounts.
- 2 To elect Khosrow Zamani as a Director of the Company.
- 3 To re-elect Mohammed Reza Vaziri as a Director of the Company.
- 4 To re-appoint Deloitte & Touche LLP as auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next AGM at which accounts are laid before the Company and to authorise the Directors to determine the remuneration of the auditors.

## Special business

To consider and, if thought fit, to pass the following resolutions, of which resolution number 5 will be proposed as an ordinary resolution and resolution numbers 6 and 7 will be proposed as special resolutions:

- 5 That for the purposes of Section 80 of the Companies Act 1985 (the "Act") (and so that expressions defined in that section shall bear the same meanings as in this resolution) the Directors be, and they are, generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities up to a maximum nominal amount of £333,817 to such persons at such times and on such terms as they think proper during the period expiring on the date of the next AGM after the passing of this resolution (or any adjournment thereof) save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.
- 6 That the Articles of Association be amended by the deletion of the words "two times the Adjusted Capital and Reserves" in Article 28.2 and the insertion of the words "four times the Adjusted Capital and Reserves".
- 7 That subject to the passing of the previous resolution the Directors be and they are hereby generally and unconditionally authorised and empowered to allot for cash or otherwise equity securities (as defined in Section 94(2) of the Act) of the Company pursuant to the authority conferred by resolution 5 above as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to the allotment of equity securities:
  - (a) in connection with a rights issue, open offer or otherwise in favour of the holders of ordinary shares of 1p each ("Ordinary Shares") where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements, of any recognised regulatory body or any stock exchange in any territory;
  - (b) pursuant to the terms of any share schemes for Directors and employees of the Company or any of its subsidiaries; and
  - (c) otherwise than pursuant to subparagraphs (a) and (b) above of equity securities not exceeding in aggregate the nominal amount of £100,145 provided further that the authority hereby granted shall expire at the conclusion of the next AGM after the passing of this resolution (or any adjournment thereof) save that the Directors shall be entitled to make at any time before the expiry of the power hereby conferred any offer or agreement which might require equity securities to be allotted after the expiry of such power.

By order of the Board

**Janette Davies**  
**COMPANY SECRETARY**  
**7 Devonshire Square**  
**London EC2M 4YH**  
**25 June 2008**

## Notes:

- 1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to exercise any of their rights to attend, speak and vote on their behalf at the AGM. A proxy need not be a member of the Company. Where more than one proxy is appointed, each proxy must be appointed for different shares. A proxy form is enclosed. Completion and return of a proxy form will not preclude a member from attending and voting at the meeting should he subsequently decide to do so. To be effective, the proxy form and any power of attorney or other such instrument (if any) under which it is signed or a notarially certified copy of such power of attorney must be deposited at the offices of Anglo Asian Mining PLC c/o 7 Ensign House, Admirals Way, London E14 9XQ not less than 48 hours before the time of the AGM.
- 2 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company 48 hours before the time of the AGM are entitled to vote in respect of shares registered in their name at that time. Changes to the register of members after 48 hours before the time of the AGM shall be disregarded in determining the rights of any person to attend or vote at the AGM.
- 3 The register of interests of the Directors and their families in the share capital of the Company, copies of contracts of service with the Company and current and amended Articles of Association will be available for inspection at the AGM for 15 minutes prior to the start of the AGM until its conclusion.



# FORM OF PROXY

Before completing this form, please read the explanatory notes below.

I/We .....

(BLOCK LETTERS)

of .....

being a member of Anglo Asian Mining PLC hereby appoint

name .....

number of shares .....

or failing him the Chairman of the AGM as my/our proxy to exercise all or any of my/our rights to attend, speak and vote in respect of my/our voting entitlement on my/our behalf at the AGM of the Company to be held at 7 Devonshire Square, London EC2M 4YH on Wednesday 23 July 2008 at 9.30am and at any adjournment thereof. I/we request the proxy to vote on the following resolutions as indicated.

Ordinary resolutions	For	Against
1 To receive the report of the Directors and the accounts for the year ended 31 December 2007.		
2 To elect Khosrow Zamani as a Director.		
3 To re-elect Mohammad Reza Vaziri as a Director.		
4 To re-appoint Deloitte & Touche LLP as auditors.		
5 To authorise the allotment of securities as described in the Notice of AGM.		
Special resolutions		
6 To amend the Articles of Association as described in the Notice of AGM.		
7 To disapply statutory pre-emption rights as described in the Notice of AGM.		

Signature or common seal..... Date ..... 2008

## Notes:

- ⊕ You may appoint a proxy or proxies of your own choice to exercise all or any of your rights to attend, speak and vote on your behalf at the AGM. The Chairman of the AGM shall act as a proxy unless another proxy is desired. A proxy need not be a member of the Company. A proxy will act in his/her discretion in relation to any business, other than that above, at the AGM (including any resolution to amend a resolution or to adjourn the AGM). To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate shall not exceed the number of shares held by you).
- ⊕ If the proxy is being appointed in relation to less than your full voting entitlement, please enter the number of shares in the space provided. If left blank your proxy will be taken to have been given in respect of your full voting entitlement.
- ⊕ In the case of a corporation, this form of proxy must be executed under its common seal or signed on its behalf by an officer of the corporation or an attorney duly authorised in writing.
- ⊕ Please indicate how you wish your vote to be cast. If you do not indicate how you wish your proxy to use your vote on any particular matter the proxy will exercise his discretion both as to how he votes and as to whether or not he abstains from voting.
- ⊕ In the case of joint holders only one need sign as the vote of the senior holder who tenders a vote will alone be counted. For this purpose, seniority shall be determined by the order in which the names of such holders stand in the register of members in respect of the joint holding.
- ⊕ To be effective this form of proxy must be completed, signed and must be lodged (together with any power of attorney or duly certified copy thereof under which this proxy is signed) at the offices of Anglo Asian Mining PLC c/o 7 Ensign House, Admirals Way, London E14 9XQ not less than 48 hours before the time appointed for the AGM.
- ⊕ In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company 48 hours before the time of the AGM are entitled to vote at the AGM in respect of shares registered in their name at that time. Changes to the register of members after 48 hours before the time of the AGM shall be disregarded in determining the rights of any person to attend or vote at the AGM.



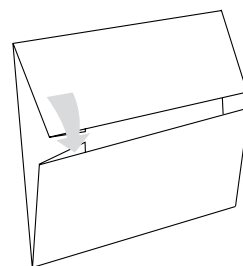
third fold and tuck in

First Class  
Stamp Required

Anglo Asian Mining PLC  
7 Ensign House  
Admirals Way  
London E14 9XQ

second fold

first fold



# CORPORATE INFORMATION

## **AZERBAIJAN OFFICE**

16 H. Aleskerov str.  
Baku  
Republic of Azerbaijan

## **SECRETARY AND REGISTERED OFFICE**

### **MS JANETTE DAVIES**

7 Devonshire Square  
Cutlers Gardens  
London EC2M 4YH  
United Kingdom

## **COMPANY NUMBER**

05227012

Registered in England and Wales

## **VAT REGISTRATION NUMBER**

872 3197 09

## **BANKERS – UNITED KINGDOM**

### **ANGLO IRISH BANK**

10 Old Jewry  
London EC2R 8DN  
United Kingdom

## **SOLICITORS – UNITED KINGDOM**

### **HAMMONDS**

7 Devonshire Square  
Cutlers Gardens  
London EC2M 4YH  
United Kingdom

## **SOLICITORS – AZERBAIJAN**

### **MGB LAW OFFICES**

340 Nizami Street  
ISR Plaza, 3rd Floor  
Baku  
Azerbaijan  
AZ1000

## **COMPANY DIARY**

September 2008	Interim results
31 December 2008	Financial year end
June 2009	Preliminary results
July 2009	Annual General Meeting

## **AUDITORS**

### **DELOITTE & TOUCHE LLP**

Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR  
United Kingdom

## **NOMINATED ADVISER AND BROKER**

### **NUMIS SECURITIES LIMITED**

10 Paternoster Square  
London EC4M 7LT  
United Kingdom

## **FINANCIAL PR ADVISERS**

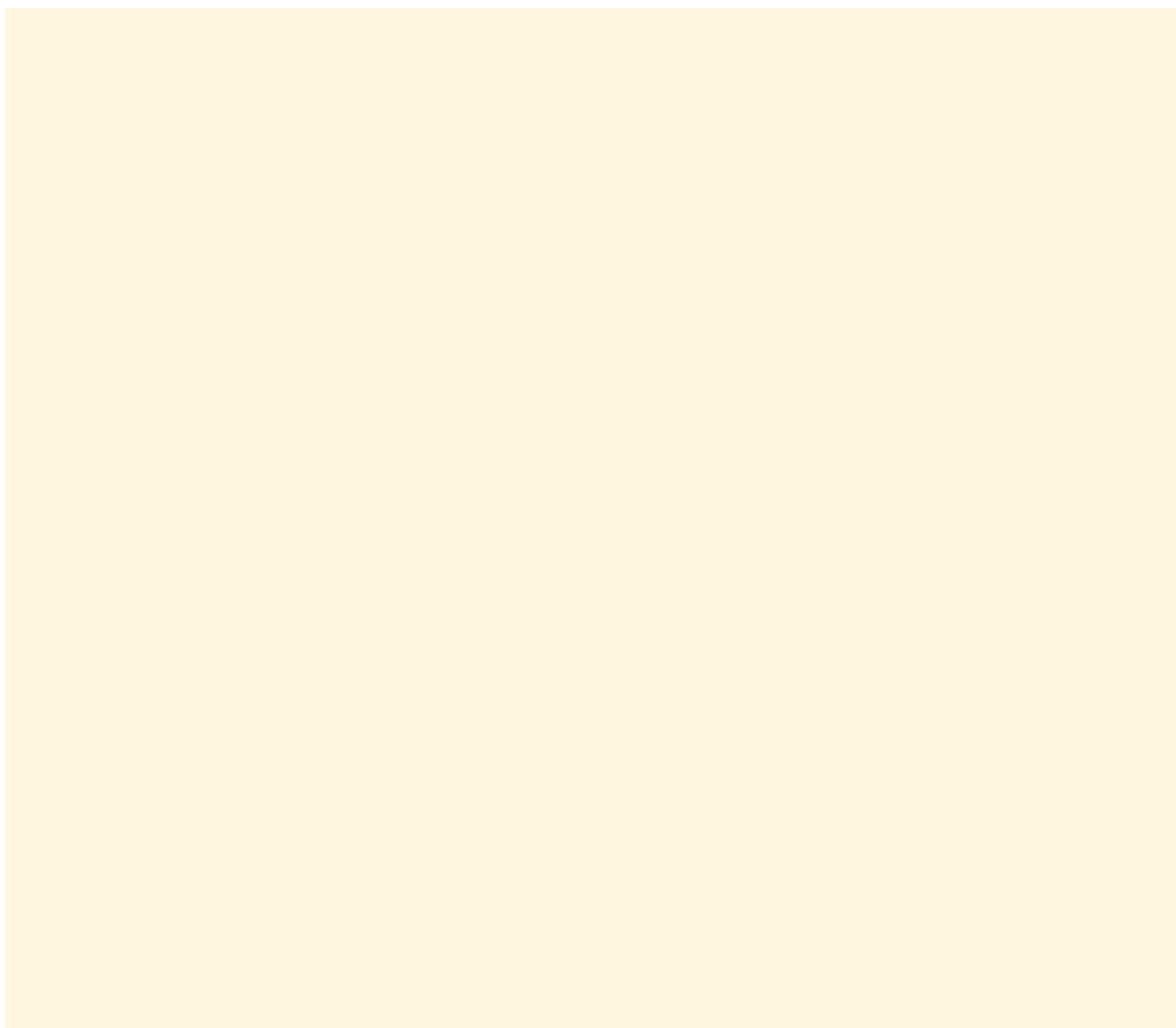
### **PARKGREEN COMMUNICATIONS**

Pegasus House  
37–42 Sackville Street  
London W1S 3EH  
United Kingdom

## **REGISTRAR**

### **CAPITA REGISTRARS**

The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
United Kingdom



**Anglo Asian Mining PLC**

16 H. Aleskerov Str. Baku  
Republic of Azerbaijan

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FAX +994 (12) 596 3354

[www.aamining.com](http://www.aamining.com)