ANGLO ASIAN MINING PLC

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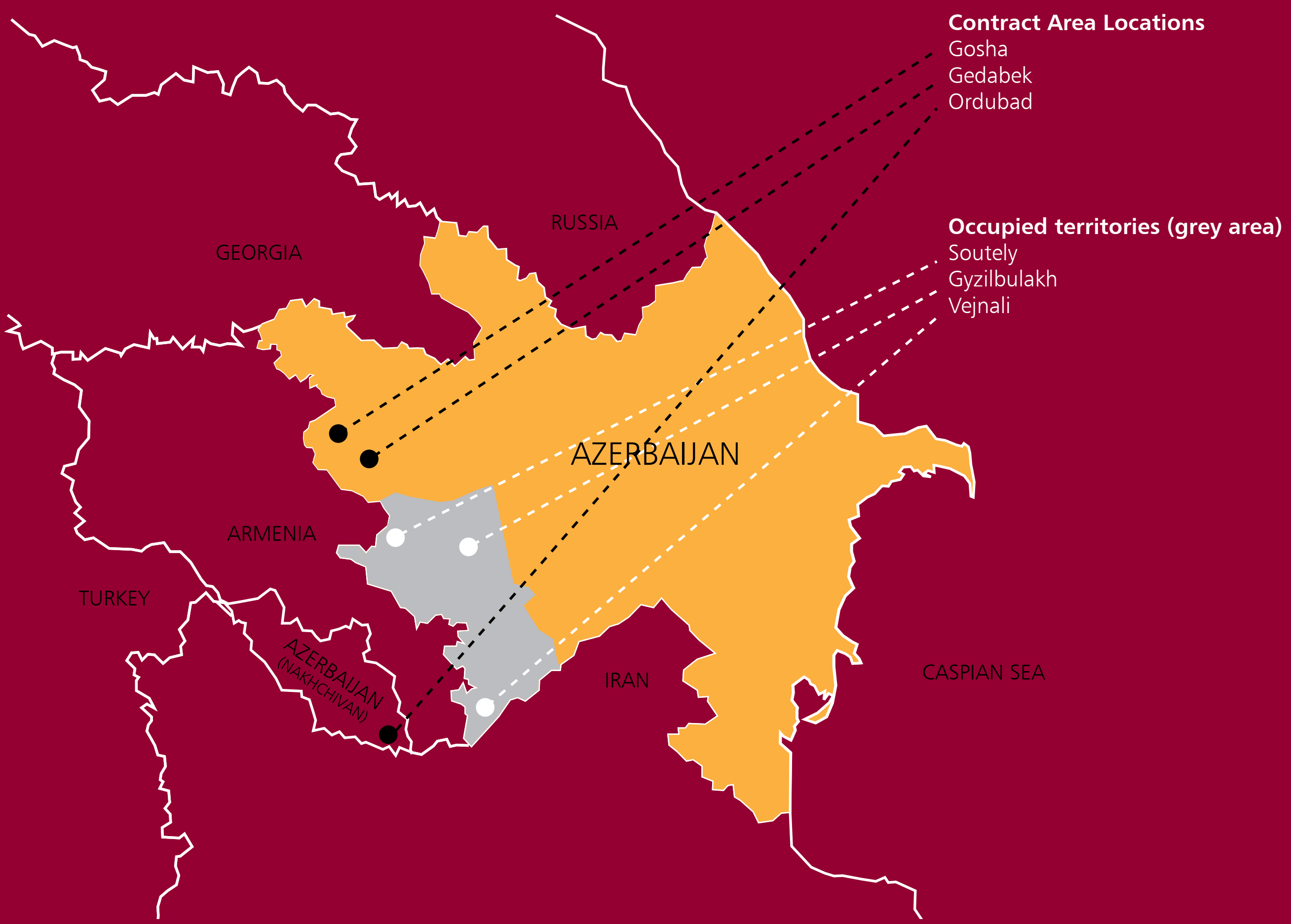
Annual report and accounts 2009

Cash generative gold producer

ANGLO ASIAN MINING PLC IS A CAUCASIA AND CENTRAL ASIAN FOCUSED GOLD PRODUCER WITH A BROAD PORTFOLIO OF PRODUCTION AND EXPLORATION ASSETS IN AZERBAIJAN.

The Company's portfolio covers 1,962 sq km of prospective exploration assets held under a Production Sharing Agreement with the Government of Azerbaijan including the newly producing Gedabek mine, the country's first ever gold mine.

The Republic of Azerbaijan is a democratic country situated in south western Asia.



Highlights

Occupied Territories:

- Three concessions located within the disputed Nagorno-Karabakh region
- No value attributed to these concessions due to the geo-political situation

Key Contract Areas:

GEDABEK

- Commenced gold production in May 2009
- First producing gold mine in Azerbaijan in modern times
- Gold production to 30 April 2010 totalled 30,323 oz
- Targeting 53,500 oz of gold production for FY2010
- Gold production continuing to increase quarter on quarter as efficiencies at the mine further improve
- SART processing plant to facilitate the recovery of the copper and silver completed February 2010 – expected to be fully operational by September 2010
- Initial six year mine life
- JORC compliant resource of 702,000 oz of gold
- Anticipate increasing the mine life and reserve figures by identifying additional resources within the mine's proximity

Updated JORC compliant resource expected to increase by at least 50% from our original resource estimation of 702,000 ounces of gold, 37,500 tonnes of copper and 6,100,000 ounces of silver.

GOSHA

- Located 25km northwest of Gedabek
- Exploration permit for precious and base metals until April 2011
- Exploration programme underway

ORDUBAD

- 462 sq km Contract Area
- Exploration permits until April 2011

Chairman's statement

Summary

- Gedabek gold/copper mine in Azerbaijan completed May 2009 and opened by the President of Azerbaijan
- First gold sales achieved July 2009
- Gold production to 30 April 2010 totalled 30,323 oz – exceeding forecast for first full year of operation to 30 June 2010 of 25,000 oz of gold
- Second calendar year production target to 31 December 2010 of 53,500 oz of gold

2009 was a particularly important year in your Company's history as it saw us take the Gedabek gold/copper mine ('Gedabek') in Azerbaijan into production. This exciting event was not only a major milestone for Anglo Asian, but also for Azerbaijan as it is the country's first operating gold mine in recent times. With gold production at Gedabek continuing to increase quarter on quarter as efficiencies at the mine further improve, and the updated JORC compliant resource expected to increase by at least 50% from our original resource estimation of 702,000 ounces of gold, 37,500 tonnes of copper and 6,100,000 ounces of silver, we remain confident of Gedabek's long-term success as a profitable gold producing entity.

Whilst our efforts have focused on Gedabek and ensuring its success, the development of our total 1,962 sq km portfolio of prospective copper and gold assets also remains central to our mid-term strategy of increasing our production portfolio. To this end, now that mining operations are successfully underway at Gedabek we look forward to advancing various exploration programmes across our portfolio.

Gedabek, located in western Azerbaijan, is an open pit, heap leach operation. Whilst it currently has an initial six year mine life with target production in excess of 300,000 ounces of gold, we are confident that through the expected resource upgrade and through further exploration in the immediate region, this will be extended. Initially, the processing plant suffered technical teething problems, including the operational consistency of the secondary and tertiary crushers and the level of ore on the leach pad. However these issues have largely been rectified through the installation of new plant equipment and we are now experiencing increasing production figures. In the months ending 31 March 2010 and 30 April 2010 we achieved gold production of 6,167 ounces and 5,298 ounces respectively, and we anticipate that these levels of production will continue. We have already exceeded our revised target of 25,000 ounces of gold for the first 12 months of operation to 30 June 2010 with total production to 30 April 2010 totalling 30,323 ounces of gold. We have now aligned our production targets with the Company's financial year; our production forecast for the year ending 31 December 2010 is 53,500 ounces of gold.

In terms of gold sales, we completed our first gold sale in July 2009 and in line with increasing gold production figures, these sales have increased over the period. The buoyant gold price has seen the Company completing gold sales ahead of forecast projections at an average of $1,098 per ounce for the months July 2009 to April 2010.

Our excellent relationship with the Government of Azerbaijan continues and we are very grateful for its support. Indeed, we were delighted when His Excellency Ilham Aliyev, the President of Azerbaijan, agreed to open Gedabek at a formal ceremony in May 2009. Since that time we have maintained a close dialogue with him and various ministers including the Minister of Ecology and Natural Resources. We also continue to work closely with the International Bank of Azerbaijan ('IBA'), which is majority owned by the Government of Azerbaijan and has provided us with loans now amounting to $43.9 million, to be repaid from cash generated from production at Gedabek. Further details of these loans are given in the Financial Review.

At this point I should once again outline our Production Sharing Agreement ('PSA'). This sees the Government of Azerbaijan take 51% of commercial products from each mine after deducting the quantities of commercial products necessary to enable the Company to recover its operating costs, capital costs and imputed interest. Costs allowable as operating, capital and imputed interest for each mine are defined under the terms of the PSA agreement. Prior to the point at which the Company has recovered all its carried forward, unrecovered operating, capital and imputed interest costs, the Company is able to recover up to a maximum of 75% of the imputed revenue from each mine. Up until the time Anglo Asian has recovered all its carried forward, unrecovered costs, the Government of Azerbaijan effectively takes 12.75% (being 51% of the balancing 25%) of commercial products of each mine with the Company taking 87.25%.

In tandem with our main cash generation from gold, our silver and copper by-products will also add to our revenues going forward. To this end, during the year we continued the development of the SART processing plant to facilitate the recovery of the copper and silver dissolved in the leaching solution. This was completed in February 2010, but as this process has never been used commercially on such a scale before, we expect a few start up issues in its first months of operation. We hope it will be fully operational by September 2010. The plant capacity is approximately 1,800 tonnes of copper/silver concentrate per year although the amount produced will depend on ore mineralogy and process efficiencies. Initial assay results show that the copper concentrate contains 60–70% copper and 4,000 to 6,000 g/t of silver. It should be noted that the higher silver content may be the result of an anomaly caused by the silver build up in the solution prior to the start up of the SART plant. The Company is in the process of evaluating options for the sale of copper/silver concentrate.

Additionally, at Gedabek, leading global mining consultant SGS Mineral Services ('SGS') has been analysing existing drilling data with a view to completing a new resource and reserve model by the end of 2010. We were delighted to announce recently the initial results of Phase I of the Realistic Mineral Model Report, completed by SGS, which indicates upgrades for the measured, indicated and inferred gold, copper and silver metal contents of at least 50%. We are expecting confirmation of these results in the form of a new JORC compliant resource statement by the end of July 2010. The report represents the first phase of SGS's work; the second phase of the project will involve in-fill drilling to increase the reliability of the results obtained from the original drill holes. This work

Looking forward, I believe 2010 will prove to be a very exciting year for Anglo Asian. With further plant improvements in the pipeline, Gedabek is expected to generate increasing revenues from this point onwards.

is expected to be completed in late 2010 and will increase our knowledge of the size and characteristics of the ore body at Gedabek.

Developing our asset portfolio forms a key part of our strategy as ultimately we hope to replicate our success at Gedabek in other areas. Our portfolio of Contract Areas in Azerbaijan consists of Gedabek, two further Contract Areas, Ordubad and Gosha, totalling 1,062 sq km and three additional Contract Areas covering 900 sq km in territories occupied by Armenia, which we are unable to develop until access is obtained.

Exploration work has been ongoing at our 462 sq km Ordubad and 300 sq km Gosha Contract Areas at a low level. We anticipate that this will pick up during the remainder of 2010.

A strong, stable team is key to the success of any business and Anglo Asian is no different. I am delighted with our current team, which is working well together and delivering solid results. During the year we made a number of appointments including that of Professor John Monhemius who joined as a Non-executive Director in August 2009, replacing Ross Bhappu. Professor Monhemius has over 40 years of experience of academic and industrial research and development in hydrometallurgy and environmental control in mining and metallurgical processes as well as experience in the public company arena.

On the management side, in October 2009 we appointed a new Operations Manager, Timothy van Zeller, to oversee Gedabek on a day-to-day basis. Timothy has over 30 years' experience in the mining industry having worked for many large scale mining operations in Zimbabwe, South Africa, Uzbekistan and Kazakhstan, and specialises in heap leach operations. His appointment has left Farhang Hedjazi, who stepped across from his role as Chief Technical Officer to become a consultant to the Company, free to focus on the wider operations including Gedabek geometallurgical studies and exploration activities.

Our whole team now consists of approximately 300 personnel from mining engineers to geologists and project managers. As ever, maintaining good health, safety, social and environmental standards is very important to us. We were therefore very pleased to be recognised for our efforts through the award of various certificates including ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System for our mining and gold and copper processing operations at Gedabek.

In addition, we are also committed to Gedabek's local community and have implemented community projects aimed at keeping an open and active dialogue with the local populace and assisting in their economic advancement. Over the past two years we have implemented initiatives including the provision of the necessary expertise and materials to provide two villages in the vicinity of Gedabek to obtain fresh water, as well as repairing a bridge and a medical facility in one of the villages.

In 2009 Anglo Asian generated revenues of $10,256,851 (2008: $nil) as a result of gold and silver sales from the Gedabek mine. The revenues were generated from the sale of Anglo Asian's share of the production for the year which comprised 9,656 ounces of gold and 2,919 ounces of silver at an average price of $1,057 and $17 respectively. The Group incurred mining cost of sales of $8,403,928 (2008: $nil) and therefore reported a mining profit of $1,852,923 for FY 2009 (2008: $nil). As production ramps up we expect gross profits achieved to improve significantly.

During the year there was an impairment charge of $5,773,180 (2008: $nil). This comprised of a write down of $5,000,000 in respect of the mining rights of Ordubad Contract Area and $773,180 in respect of evaluation and exploration expenditure for three mining properties within the Ordubad Contract Area. The Company originally carried mining rights for Ordubad at $10,000,000 at the time it purchased rights to the Contract Area and wrote down an amount of $5,000,000 during 2007. The Directors carefully evaluated the potential of Ordubad Contract Area in relation to the expiry of the licence in 2011 and made the decision to write down the balance of $5,000,000.

The Group incurred administration expenses of $4,250,801 (2008: $4,526,090) and finance costs for the year of $3,262,986 (2008: $nil). The Group generated a loss for the year of $11,723,910 (2008: $4,471,434).

Looking forward, I believe 2010 will prove to be a very exciting year for Anglo Asian. With further plant improvements in the pipeline, Gedabek is expected to generate increasing revenues from this point onwards. This, in tandem with our exploration activities, gives us confidence in our strategy of becoming a mid-tier gold and base metal mining Company focused in Caucasia and Central Asia.

I would like to thank all those involved in the Company for their continued support and belief in our projects. I truly believe that Anglo Asian has great potential to deliver good rewards to its shareholders and look forward to the coming year with confidence.

Khosrow Zamani
Non-executive Chairman
27 May 2010

Chief Executive's review

Summary

- Gold production at Gedabek continuing to increase quarter on quarter as efficiencies at the mine further improve
- SART processing plant to facilitate the recovery of the copper and silver dissolved in the leaching solution completed February 2010 – expected to be fully operational by September 2010
- Anticipate increasing the mine life and reserve figures at Gedabek by identifying additional resources within the mine's proximity
- Focused on developing 1,962 sq km gold/copper exploration portfolio with the aim of replicating success at Gedabek and developing additional mining operations

Mining operations

Our focus during 2009 was channelled towards Gedabek, and the building of its mine and processing plant. These efforts bore fruit in May 2009 when we commenced gold mining operations and sold our first gold in July 2009.

The Company began construction of an open pit mine in 2008. This included building infrastructure and developing an open pit mine, as well as designing and building a conventional heap leach pad and processing facility for the recovery of gold, copper and silver. It was also the Company's intention during the first year of the mine's operation to revise its JORC compliant resource 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. To this end we completed Phase I of the Realistic Mineral Model Report which indicates upgrades for the measured, indicated and inferred gold, copper and silver metal contents of at least 50%. We expect the JORC compliant report to be completed by the end of July 2010 with the more detailed Phase II study to follow at the end of the year after further in-fill drilling has been completed.

As is often the case, there were some technical problems experienced during the start-up of the mine, namely at the processing facility. These included the operational consistency of the secondary and tertiary crushers, which curtailed production, as well as geological issues pertaining to the location of the leach pads.

Accordingly, Anglo Asian implemented a number of initiatives in July and August 2009 to rectify these problems, expand production and improve efficiencies. These initiatives included installing two new cone crushers to improve operational consistency which were fitted and completed at the end of September 2009. Anglo Asian also installed an additional tertiary cone crusher and sourced a reconditioned one that can be introduced as a standby for the secondary cone crusher to increase the plant's operational flexibility.

We continued to encounter difficulties during the installation of these new cone crushers and also had ongoing problems with the stacker that affected levels of ore on the leach pad. These difficulties were principally the result of unexpectedly high moisture content within the ore fed to the crushers. Subsequently, the Company revised its production forecasts to 25,000 ounces of gold in its first full year of production to June 2010 from the initial 70,000 ounces of gold. Since that time, we have experienced increasing gold production and as a result, we have already exceeded our revised production target for our first year of operation with production from July 2009 to April 2010 totalling 30,323 ounces of gold. The table on page 5 illustrates monthly gold production.

Our new stacker system will begin operating in late May 2010 and further increases in plant availability and production are expected.

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SART - Copper and Silver Production

In addition to gold production, Anglo Asian will also produce copper and silver by-products which will add to our revenue stream going forward. During the year we continued the development of a Sulphidisation, Acidification, Recycling and Thickening ('SART') processing plant to facilitate the recovery of the copper and silver dissolved in the leaching solution. We were delighted to commence the new SART process in February 2010, however as this process has never been used commercially on such a scale before, we foresee a few teething issues in its first months of operation. We expect the SART process to be fully operational by September 2010.

The plant capacity is 1,800 tonnes of copper concentrate per year although the amount produced will depend on ore mineralogy and process efficiencies. Initial assay results show that the copper concentrate contains 60–70% copper and 4,000 to 6,000 g/t of silver, although it should be noted that the high silver content may be the result of an anomaly caused by the silver build up in the solution prior to the start up of the SART plant. During March and April 2010 we produced approximately 85 dry tonnes of copper concentrate using circa 30% of the plant's capacity. The Company is in the process of evaluating options for the sale of copper/silver concentrate.

Table 1: Production at Gedabek

Month	Gold produced (including Government of Azerbaijan's share) (oz)	Cumulative gold production (including Government of Azerbaijan's share) (oz)	Weighted average gold sale price (US$)
July 2009	802	802	944
August 2009	751	1,553	951
September 2009	2,192	3,745	997
October 2009	2,208	5,953	1,037
November 2009	2,549	8,502	1,129
December 2009	2,863	11,365	1,105
January 2010	3,483	14,848	1,106
February 2010	4,007	18,855	1,090
March 2010	6,170	25,025	1,111
April 2010	5,298	30,323	1,151
Total to 30 April 2010	**30,323**	**30,323**	**1,098**

Table 2 overleaf summarises levels of dry ore which have been transferred to the leach pad on a monthly basis since April 2009. In order to improve economic recovery, blending of high and low grade ore has been carried out in a ratio that will increase tonnes whilst maintaining the grade quality.

The weather will always play a role in the running of operations given our location. Over the winter months we experienced extremely cold conditions, which resulted in the freezing of our solution application pipes. However we have now purchased below surface drippers which will be installed before next winter. We are now moving into the wet season, which creates its own challenges. In anticipation of this we have been building bigger drainage channels around the leach pad and increased the surge capacity of our solution storage ponds, although the fact that no ore was delivered to the leach pad in June 2009 was due to a lack of capacity on the pad.

Post period end, we were delighted to commence the new SART process, which facilitates the recovery of the copper dissolved in the leaching solution. The copper is recovered in the form of a precipitated copper sulphide concentrate by-product, which also contains silver with commercial value. Initial results appear promising. Following process optimisation, a plant automation system will be installed. The plant capacity is 1,800 tonnes of copper concentrate per year although the amount produced will depend on ore mineralogy and process efficiencies. Initial assay results show that the copper concentrate contains 60–70% copper and 4,000 to 6,000 g/t of silver although it should be noted that the high silver content may be the result of an anomaly caused by the silver build up in the solution prior to the start up of the SART plant. During March and April 2010 we produced approximately 85 dry tonnes of copper concentrate using circa 30% of the plant's capacity. The Company is in the process of evaluating options for the sale of copper/silver concentrate.

On more practical issues surrounding the running of the mine, health and safety systems remain at the forefront of our agenda. We abide by strict health and safety criteria and our record in this respect remains excellent with no major or serious accidents during 2009 and to date in 2010.

Environmental principles are also high on our agenda and the mine is constructed to the highest environmental standards. In terms of power and water, we are using our own diesel-powered generators and water supply is readily available from nearby streams.

On the same theme, we were delighted to announce that in March 2010, the Company was awarded the following certificates: ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System and OHSAS 18001:2007 Occupational Health and Safety Management System.

Chief Executive's review continued

Table 2: Dry ore transferred to leach pad at Gedabek

Month	Dry ore transferred to the leach pad (tonnes)	Average grade (g/t)
March 2009	9,730	2.77
April 2009	24,066	2.50
May 2009	23,702	2.95
June 2009	—	—
July 2009	29,785	4.20
August 2009	37,317	4.07
September 2009	18,403	5.04
October 2009	40,603	3.27
November 2009	27,022	4.59
December 2009	62,346	4.04
January 2010	59,208	4.62
February 2010	70,118	5.17
March 2010	66,000	4.68
April 2010	56,667	4.42

Mining operations continued

We have good relationships with our labour force of approximately 300 people including a local management team, Azeri mining and earthworks contractors and experienced operations personnel from surrounding countries. In order to accommodate our staff we have built a permanent mine camp at Gedabek.

We also have a highly active community policy aimed at enfranchising the local community and assisting in their economic advancement. To date, Anglo Asian has carried out several community development projects including providing seminars and training on beekeeping and we have a pilot programme in place to give soft loans to beekeeping families to start in business. Anglo Asian has also provided the expertise and material to enable two villages local to the Gedabek mine to obtain fresh water, as well as repairing a bridge and a medical facility in one of the villages. Additionally, we have set up a training centre in Gedabek and have partnered with two international Non Government Organisations ('NGOs') to offer local residents vocational training such as welding and business development courses such as beekeeping, tailoring, computer skills and business start-up. The centre is also used for an internet café at Gedabek, which gives ongoing training in the use of computers and free use of the internet for the local community.

Exploration

Although we are currently focused on development and successful production at Gedabek, exploration still remains central to our long-term strategy of increasing our production profile. Our portfolio includes three Contract Areas covering 1,062 sq km: Gedabek, Ordubad and Gosha, which run across the Tethyan Tectonic Belt, one of the world's significant copper and gold bearing areas. We believe that with further exploration, our exploration portfolio has the potential to replicate Gedabek and generate further producing entities. Additionally, we hope to develop our 900 sq km prospects in three additional Contract Areas located in the region in Azerbaijan occupied by Armenia when the political situation permits.

Gedabek

Exploration activities within the Gedabek Contract Area continue. During the initial development of the mine, it became evident that in a number of areas the ore had higher grades than forecast by the original ore body model and there are also extensions beyond the predicted final pit boundaries. Ore mined as of 31 March 2010 amounted to 468,000 tonnes at a grade of 4.18 g/t. Out of this amount, 212,000 tonnes with an average grade of 3.0 g/t was not included in the original reserve estimations. In order to help clarify the situation, we enlisted the help of SGS Mineral Services and, at the end of August 2009, one of its consultants visited Gedabek to review its geology and existing drill logs. Subsequently,

Increasing Gedabek's Resource

During the initial development of the Gedabek mine, it became evident that in a number of areas the ore had higher grades than forecast by the original ore body model by mining consultants SKS, and that there were also extensions beyond the predicted final pit boundaries. In order to help clarify the situation, we enlisted the help of SGS Mineral Services ('SGS') and at the end of August 2009, one of its consultants visited Gedabek to review its geology and existing drill logs. Subsequently, a re-modelling and a geo-metallurgical study was commissioned to create a more accurate ore body model of the Gedabek deposit.

Initial results of Phase I of the Realistic Mineral Resources Model Report were announced in April 2010 and indicated upgrades for the measured, indicated and inferred gold, copper and silver metal contents of at least 50% from the original JORC compliant mineral resource statement of 702,000 ounces of gold, 37,500 tonnes of copper and 6,100,000 ounces of silver. The mineral resources were estimated by accessing, reviewing, validating and processing the whole geological and chemical information from 141 exploration diamond and reverse circulation (29 diamond, 34 reverse circulation and 78 combined) drill holes and 262 production blast holes.

The report represents the first phase of SGS's work; the second phase of the project will involve in-fill drilling to increase the reliability of the results obtained from the original drill holes. This work is expected to be completed by late 2010 and will increase the Board's confidence in the new resource evaluations.

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It is important to note that the report represents the first phase of SGS's work; the second phase of the project will involve in-fill drilling to increase the reliability of the results obtained from the original drill holes. This work is expected to be completed by late 2010 and will increase the Board's confidence in the new resource evaluations. The results of the report are therefore subject to revision.

We also continued exploration work at Maarif, another property on the Gedabek Contract Area. This included pioneer drilling following geochemical and geophysical surveys. This will be followed by analysis and interpretation of the results in the second half of 2010.

Gosha

The 300 sq km Gosha Contract Area is situated 50 km north-west of Gedabek and contains three prospects: Gosha, Itkirlan and Munduglu. In April 2009 the Company was granted a two year extension by the Government of Azerbaijan to continue exploration in this area for precious and base metals until 13 April 2011.

We have access to a significant amount of data generated in the Soviet-era from this area, which, used in tandem with additional data that we have collected, will form the basis for an extensive exploration programme. Ultimately, we aim to define new resources and replicate our success at Gedabek with the development of an underground mining operation.

Gosha has more than 6 km of exploration audits from the Soviet-era, of which the richest mineralisation zone has a prospect of narrow vein type renegade gold deposit. In addition to this zone, which according to Soviet-era studies contains approximately 3.2 tonnes of gold with average grade of 14.0 g/t, there are several other vein type mineralisation zones. In total according to these studies, Gosha has a resource of 8 tonnes of gold in the indicated and inferred categories.

Additionally, assay results from extensive samplings completed by the Company on the richest mineralisation zone indicate a close match with previous works during the Soviet-era. With this in mind we launched a new exploration programme for 2010 including diamond core drilling. Furthermore a contract for an extension of a new audit was signed with a local company for 2010, in order to cross cut the ore vein at a lower depth.

Ordubad

The 462 sq km Ordubad Contract Area in the Nakhchivan region contains numerous targets including Shakardara, Piyazbashi, Misdag, Agyurt, Shalala and Diakchay, which are all located within a 5km radius. In April 2009 we were granted a two year extension to continue exploration in this area for precious and base metals until 13 April 2011.

During 2009 based on previous Soviet-era studies, we launched a core drilling programme at the Misdag, Shalala and Diakchay targets. These results did not correlate to the data indicated in the Soviet-era reports. In light of this, we have modified our exploration strategy at the Ordubad Contract Area and started a new regional geological survey over the area, in addition to limited exploration activities at the Agyurt target area with a view to extending the licence period. Consequently, we have made a decision to write off $773,180 in exploration and evaluation expenditure attributable to Misdag, Shalala and Diakchay mining properties as well as writing down the remaining $5,000,000 mining rights attributable to Ordubad Contract Area.

Product Sharing Agreement ('PSA')

The Company has exclusive rights, through one of its subsidiaries, RV Investment Group Services LLC, to explore and extract all minerals from all of the Contract Areas through a PSA with the Government of Azerbaijan. This also provides Anglo Asian with exclusive rights to data from the Soviet-era covering these areas. Under the terms of the PSA, which is modelled on Azerbaijan's internationally recognised oil industry practices, the Government of Azerbaijan is entitled to 51% of commercial products from each mine after deducting the quantities of commercial products necessary to enable the Company to recover its operating costs, capital costs and imputed interest. Costs allowable as operating, capital and imputed interest for each mine are defined under the terms of the PSA agreement. Prior to the point at which the Company has recovered all its carried forward, unrecovered operating, capital and imputed interest costs, the Company is able to recover up to a maximum of 75% of the imputed revenue from each mine. Up until the time Anglo Asian has recovered all its carried forward, unrecovered costs, the Government of Azerbaijan effectively takes 12.75% (being 51% of the balancing 25%) of commercial products of each mine with the Company taking 87.25%.

Reza Vaziri

President and Chief Executive

27 May 2010

Finance review

Summary

- Mining profit of $1,852,923 for FY 2009 (2008: $nil)
- Revenue of $10,256,851
- Operating loss of $11,723,910

Introduction

I am pleased to report that in 2009 Anglo Asian generated revenues of $10,256,851 (2008: £nil) as a result of gold and silver sales from the Gedabek mine.

The revenues were generated from the sale of Anglo Asian's share of the production for the year which comprised 9,656 ounces of gold and 2,919 ounces of silver at an average price of $1,057 and $17 respectively.

The Group incurred mining cost of sales of $8,403,298 and therefore reported a mining profit of $1,852,923 for FY2009 (2008: $nil). Low production of gold and silver in the early months of operation was the main factor in the amount of mining profit.

After consideration of all available facts and information, the Board has taken the view that the Group entered into commercial production from 1 July 2009. As such the intangible mining asset carried for Gedabek has been amortised over the period since 1 July 2009 on a unit of production basis.

During the year there was an impairment charge of $5,773,180 (2008: $nil). This comprised of a write down of $5,000,000 in respect of the mining rights of Ordubad Contract Area and $773,180 in respect of evaluation and exploration expenditure for three mining properties within the Ordubad Contract Area. The Company originally carried mining rights for Ordubad at $10,000,000 at the time it purchased rights to the Contract Area and wrote down an amount of $5,000,000 during 2007. The Directors carefully evaluated the potential of Ordubad Contract Area in relation to the expiry of the licence in 2011 and made the decision to write down the balance of $5,000,000.

The Group incurred administration expenses of $4,250,801 (2008:$4,526,090) which along with finance costs for the year of $3,262,986 (2008: $nil) resulted in a loss for the year of $11,723,910 (2008: $4,471,434). The finance costs for the year comprises interest on the credit facilities and loans net of capitalised interest, interest on letters of credit and accretion expenses on the rehabilitation provision.

In addition to the $25.0 million credit facility obtained from the IBA during 2008, the Group obtained three further loans from the IBA for the value of $9.4 million, $6.5 million and $3.0 million giving an aggregate of $18.9 million obtained in 2009. All loans carry an interest rate of 15% per annum. The loan of $9.4 million is to be repaid in nine quarterly instalments (first eight tranches of $1,044,000 and a ninth tranche of $1,048,000) with the first instalment due in March 2011 and then every three months to March 2013.

His Excellency Ilham Aliyev, President of Azerbaijan opening the Gedabek gold/copper mine in May 2009.

Table 3: Repayment schedule for IBA loans at 31 December 2009 and at 27 May 2010

	2010 US$	2011 US$	2012 US$	2013 US$	**Total US$**
Repayment schedule for IBA loans as at 31 December 2009	17,083,337	18,592,663	6,176,000	2,048,000	**43,900,000**
Impact of agreement to reschedule loan repayments	(8,416,665)	(3,583,335)	12,000,000	—	**—**
Repayment schedule for IBA loans as at 27 May 2010	8,666,672	15,009,328	18,176,000	2,048,000	**43,900,000**

The loan of $6.5 million is to be repaid in 13 instalments of $500,000 with the first instalment due in June 2010 and then every three months until June 2013. The loan of $3.0 million is to be repaid in six monthly instalments of $500,000 beginning from April 2010. Subsequent to the year-end date, the repayment terms of the loan has been revised. Table 3 above shows the repayment schedule for IBA loans at 31 December 2009 and at 27 May 2010.

The Group also obtained a $1.0 million unsecured loan from its CEO, Mr Reza Vaziri, to provide additional working capital for the Group. Under the terms of the loan agreement, an all inclusive annual interest rate of 8% per annum will be applied. 20% of initial net gold sales will be used to service repayment of this loan with the latest date for the outstanding balance to be paid in full being 7 February 2010. Subsequent to the year-end date and as announced on 12 April 2010 the repayment term of this loan has been changed so that the entire loan is repayable on 30 November 2010.

As announced on 8 March 2010, the Group obtained a credit line from Bank Standard JSC for an amount of $1.0 million repayable on 11 December 2010. Interest is payable on the credit line at 19% per annum. The Group has obtained a loan from Pasha Bank for $450,000 for the purposes of purchasing two mining fleet vehicles. Interest is payable at 17%. The loan is repayable in instalments with the last instalment payable in December 2010.

During the year Anglo Asian continued to draw down on its available credit facilities and at the end of the year had debt of $42,983,336 (2008: $17,396,890).

As at 31 December 2009 the Group had undrawn facilities of $589,471 (2008: $5,663,778) after consideration of the letters of credit which are guaranteed by the International Bank of Azerbaijan.

The Group held cash balances of $809,548 (2008: $738,722) and inventories at cost of $10,276,024 (2008: $nil).

Exploration and evaluation expenditure of $1,685,142 (2008: $352,344) were incurred and capitalised during the year.

The Group did not pay any corporation tax during the year as it continued to be loss making. No deferred tax asset has been recognised.

Going concern

The Directors have prepared the consolidated financial statements on a going concern basis after reviewing the Group's cash position for the period to 30 June 2011 and satisfying themselves the Group will have sufficient funds on hand to realise their assets and meet their obligations as and when they fall due. Refer to note 1 to the consolidated financial statements for the facts and assumptions the Directors used to base their conclusion on.

Commodity price risk

The Group obtained its first revenues during the year and also entered into the phase of commercial production from 1 July 2009. As such its revenue is exposed to fluctuations in the price of gold, silver and copper. Anglo Asian currently does not hold any financial instruments to hedge the commodity price risk on its expected future production; however the Board will review this exposure and the requirement for hedging activities on an ongoing basis.

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. The Group does not currently hedge its exposure to other currencies although it will review this periodically if the volume of non-US Dollar transactions increases significantly.

Liquidity/interest rate risk

The Group has not used any interest rate swaps or other instruments to manage its interest rate profile during 2009 but will review this requirement on a periodic basis.

Board approval is required for all new borrowing facilities. At the year end the Group's only interest rate exposure was on cash held in the bank. During the year it had entered into short-term deposits which included overnight, weekly and monthly up to 12 months, however it held no short-term deposits as at the year end.

Market risk

Exposure to interest rate fluctuations is minimal as the Group currently has no floating rate debt. Interest rates on UK Sterling and US Dollar deposits have been at historic lows during the current year. The levels of deposits held by the Group have also been low therefore any impact of changing rates is minimal. The Group is exposed to fluctuations in commodity prices now that production has commenced.

Operational risk

There is exposure to levels of production as a result of unforeseen operational problems or machinery malfunction and therefore operating costs for commercial production may remain subject to variation from those forecast by the Directors. The Group will monitor progress on delays and costs on a regular basis.

Andrew Herbert
Chief Financial Officer
27 May 2010

Board of Directors

Mr Khosrow Zamani

NON-EXECUTIVE CHAIRMAN, AGE 67

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. He was responsible for the IFC investment programme and strategy in 15 countries across the region. Whilst a Director at IFC, Khosrow was instrumental in building the IFC investment portfolio 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 Zamani has over 30 years of experience in investment and project finance and banking in emerging markets. He holds a MSc in Engineering from the USA and a Master of Business Operations and Management from the UK. He is currently a member of the Board of Directors of several banks and financial services and private equity funds active in CIS, central Asia and Caucasia.

Mr Reza Vaziri

PRESIDENT CHIEF EXECUTIVE, AGE 57
Appointed 29 September 2008

Reza Vaziri has been actively involved in business in Azerbaijan since just after its independence. Since RVIG, now Anglo Asian's subsidiary, signed a Production Sharing Agreement with the Government of Azerbaijan, Reza has been focused on developing the Company's key gold/copper/silver resources with the objective of establishing Anglo Asian as a significant gold producer in the Caucasia and central Asia region. Prior to his business career, Reza held a number of high-ranking positions in the pre-revolutionary Iranian Government. He was the Head of the Foreign Relations Office at the Ministry of the Imperial Court of Iran. At the time of the revolution, he was Chief of Office of Political and International Affairs. Reza holds a law degree from the National University of Iran. As founder and Co-Chairman for life of the Board of Directors of the US – Azerbaijan Chamber of Commerce with James A. Baker IV, Reza dedicates much of his time furthering business relations between the two countries. Reza serves alongside such Directors as: James Baker III, Jahangir Hajiyev and Henry Kissinger. Reza resides in Baku, London and Washington, DC.

Mr Richard Round FCCA

NON-EXECUTIVE DIRECTOR, AGE 52
Appointed 23 July 2008

Richard Round (FCCA) began his career with British Coal in 1977. Richard has since held a number of Finance Director roles in various public and private mining, energy, engineering and oil and gas service groups including Ferrum Holdings plc, Consolidated Supply Management Limited, Mining (Scotland) Group, Cambrian Mining PLC, Lubel Coal Company Limited, Novera Energy plc and also Anglo Asian Mining plc where he stepped down in July 2008 and took up the position of Non-executive Director. Richard is now Chief Financial Officer of Aquamarine Power a wave power developer in Scotland.

Governor John H Sununu

NON-EXECUTIVE DIRECTOR, AGE 70

Governor John Sununu received a PhD 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. John is a former partner in Trinity International Partners, a private financial firm, and currently serves as President of JHS Associates Ltd.

Professor John Monhemius

NON-EXECUTIVE DIRECTOR, AGE 66
Appointed 19 August 2009

Emeritus Professor John Monhemius held the Roy Wright Chair in Mineral and Environmental Engineering at the Royal School of Mines, Imperial College, London, until 2004, when he retired from full-time academic work. From 2000 to 2004, he was Dean of the Royal School of Mines. He has more than 40 years' experience of academic and industrial research and development in hydrometallurgy and environmental control in mining and metallurgical processes, particularly in the management of toxic wastes and effluents, and he has acted as a consultant to many large mining and chemical companies. Professor Monhemius has published over 130 papers in the scientific literature and he has supervised more than 30 PhD students. From 1986–96, he was a co-founder and director of Consort Research Ltd, a consultancy specialising in gold and base metal ore processing. Currently, he is a Non-executive Director of Obtala Resources plc and he is a member of the National Council of the Institute of Materials, Minerals and Mining ('IOM3') and is Board Chairman of the Division of Mineral Processing and Extractive Metallurgy.

Directors' report

The Directors submit their report and the financial statements of Anglo Asian Mining PLC for the year ended 31 December 2009.

Principal activities

The principal activity of Anglo Asian Mining PLC is that of a holding company and a provider of support and management services to its operating subsidiary. Together with its subsidiaries (see note 17 on page 33) it is involved in the exploration and development of gold and copper projects in Azerbaijan and the operation of the Gedabek mine 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 2009 amounted to $11,723,910 (2008: loss of $4,471,434).

The record of the business during the year and an indication of likely further developments may be found in the Chairman's Statement, (pages 2 and 3) the Chief Executive's Review (pages 4 to 7) and the Finance Review (pages 8 and 9).

Business review

A business overview is discussed on pages 2 and 3 of the Chairman's Statement. Other risks are discussed in the Finance Review on pages 8 and 9.

Share capital

Details of the movements in share capital during the period are set out in the Consolidated Statement of Changes in Equity in the consolidated financial statements.

Directors

The current Directors and their biographies are set out on page 10.

Directors' interests

The Directors in office during the year and their interests in ordinary shares of the Company at 31 December 2009 and 31 December 2008 were:

Directors	**31 December 2009 Number of shares**	31 December 2008 Number of shares
Khosrow Zamani	**243,184**	133,834
Reza Vaziri	**32,796,830**	30,689,278
Richard Round	**213,958**	132,872
Ross Bhappu (resigned 23 July 2009)	**—**	—
John Sununu	**10,070,352**	9,836,300
John Monhemius (appointed 19 August 2009)	**55,556**	—

A total of 6,224,028 (2008: 3,100,041) shares were issued during the year to the Directors, Resource Capital Fund III L.P., employees and creditors in lieu of salaries, fees and monies owed bringing the total number of ordinary shares with voting rights to 108,945,949 at 31 December 2009 (2008: 102,721,921).

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

	Exercise price (p)	Latest exercise date	As at 1 January 2009	Granted during the year	Exercised during the year	Forfeited in the year	Lapsed in the year	**As at 31 December 2009**
Directors								
Khosrow Zamani	16.5	1 June 2017	100,000	—	—	—	—	**100,000**
	12.0	27 July 2017	500,000	—	—	—	—	**500,000**
	4.8	4 December 2018	550,000	—	—	—	—	**550,000**
Richard Round	77.0	26 July 2015	432,900	—	—	—	—	**432,900**
	42.5	12 April 2016	495,859	—	—	—	—	**495,859**
	12.0	27 July 2017	600,000	—	—	—	—	**600,000**
Ross Bhappu	42.5	12 April 2016	123,965	—	—	(123,965)	—	**—**
John Monhemius	11.5	14 August 2019	—	150,000	—	—	—	**150,000**
Others								
	97.0	11 August 2015	247,925	—	—	—	—	**247,925**
	42.5	12 April 2016	59,503	—	—	(59,503)	—	**—**
	8.9	1 August 2018	200,000	—	—	—	—	**200,000**
	4.8	4 December 2018	1,300,000	—	(350,000)	—	—	**950,000**
			4,610,152	150,000	(350,000)	(183,468)	—	**4,226,684**

All options can be exercised at various dates up to 14 August 2019.

Directors' report continued

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

Going concern
The Directors have prepared the consolidated financial statements on a going concern basis after reviewing the Group's cash position for the period to 30 June 2011 and satisfying themselves the Group will have sufficient funds on hand to realise their assets and meet their obligations as and when they fall due. Refer to note 1 to the consolidated financial statements for the facts and assumptions the Directors used to base their conclusion on.

Charitable and political contributions
There were no charitable or political contributions made during the year (2008: $nil).

Substantial shareholdings
The Company has been informed that on 27 May 2010 the following shareholders held substantial holdings in the issued ordinary shares of the Company:

Shareholders	Number of ordinary shares	Holding %
Reza Vaziri	32,796,830	29.92
Khagani Bashirov	18,087,758	16.50
John Sununu	10,734,540	9.79
Resource Capital Fund III L.P.	6,459,523	5.89
Limelight Industrial Developments Limited	4,038,600	3.68

The number of shares in issue at this date was 109,616,804.

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 139 (2008: 35).

Disclosure of information to auditors
Having made enquiries of fellow Directors, each Director confirms that so far as each Director is aware, there is no relevant audit information of which our auditors are unaware and each 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 our auditors are aware of that information.

Annual General Meeting
The Company will hold its next Annual General Meeting on 28 June 2010 at which this report and financial statements will be presented. Notification of the meeting has been sent along with this report.

Related party transactions
Related party transactions are disclosed in note 29 to the consolidated financial statements.

Auditors
Ernst & Young LLP were appointed as auditors of the Company for the year ended 31 December 2009 in place of the retiring auditors, Deloitte LLP. Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Corporate governance
A report on corporate governance and compliance with provisions of the combined code is set out on page 14.

Events after the balance sheet
Events after the balance sheet are disclosed in note 30 to the consolidated financial statements.

Statement of Directors' responsibility

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with UK Generally Accepted Accounting Principles ('UK GAAP').

In the case of the Group's IFRS financial statements, the Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing the Group financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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;
- state whether they have been prepared in accordance with IFRS; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

In the case of the Company's UK GAAP financial statements, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. 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 they have been prepared in accordance with UK GAAP; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board

Andrew Herbert
Company Secretary
27 May 2010

Corporate governance

Introduction

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

The Board

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

The Board meets regularly throughout the year and receives a Board pack comprising individual reports from the Executive Director together with any other material deemed necessary for the Board to discharge its duties. The Board also conducts telephone Board meetings as issues arise which require Board attention. 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 the implementation by the Executive team.

The Board considers two of the Non-executive Directors other than the Chairman to be independent.

Audit Committee

The Board has an Audit Committee which comprises of Richard Round and John Sununu and is scheduled to meet at least twice a year. The external auditors attend the meetings and the Chief Executive and Chief Financial Officer 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 Board has a Remuneration Committee which comprises of Khosrow Zamani 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 Board has a Nomination Committee which comprises of Khosrow Zamani and John Sununu. 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 website (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 Group and limited resources available.

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 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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
As explained more fully in the Directors' Responsibilities Statement set out on page 13, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the parent company financial statements of Anglo Asian Mining PLC for the year ended 31 December 2009.

Mirco Bardella (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 May 2010

1. The maintenance and integrity of the Anglo Asian Mining PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 US$	Year ended 31 December 2008 (Restated) US$
Revenue	5	**10,256,851**	—
Cost of sales		**(8,403,928)**	—
Gross profit		**1,852,923**	—
Administrative expenses		**(4,250,801)**	(4,526,090)
Write down of capitalised intangible assets	10	**(5,773,180)**	—
Other operating expense	6	**(290,674)**	—
Operating loss	7	**(8,461,732)**	(4,526,090)
Finance income	5	**808**	54,656
Finance costs	11	**(3,262,986)**	—
Loss before tax		**(11,723,910)**	(4,471,434)
Income tax expense	12	**—**	—
Loss for the period attributable to the equity holders of the parent		**(11,723,910)**	(4,471,434)
Loss per share for the period attributable to the equity holders of the parent			
Basic and diluted (cents per share)	13	**(11.28)**	(4.41)

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

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	Year ended 31 December 2009 US$	Year ended 31 December 2008 (Restated) US$
Loss for the year	**(11,723,910)**	(4,471,434)
Other comprehensive income	**—**	—
Total comprehensive loss for the year	**(11,723,910)**	(4,471,434)
Attributable to the equity holders of the parent	**(11,723,910)**	(4,471,434)

Consolidated balance sheet
As at 31 December 2009

	Notes	**As at 31 December 2009 US$**	As at 31 December 2008 (Restated) US$	As at 1 January 2008 (Restated) US$
Non-current assets				
Intangible assets	14	**38,745,095**	44,127,513	43,729,409
Property, plant and equipment	15	**48,298,659**	35,057,769	7,492,689
Non-current prepayments	16	**79,200**	509,794	—
		87,122,954	79,695,076	51,222,098
Current assets				
Trade and other receivables	18	**3,836,685**	1,474,063	192,164
Inventories	19	**10,276,024**	—	—
Cash and cash equivalents	20	**809,548**	738,722	6,810,902
		14,922,257	2,212,785	7,003,066
Total assets		**102,045,211**	81,907,861	58,225,164
Current liabilities				
Trade and other payables	21	**(14,951,262)**	(11,370,718)	(1,332,491)
Interest-bearing loans and borrowings	22	**(19,097,540)**	—	—
		(34,048,802)	(11,370,718)	(1,332,491)
Net current liabilities		**(19,126,545)**	(9,157,933)	(5,670,575)
Non-current liabilities				
Provision for rehabilitation	23	**(1,530,978)**	—	—
Trade and other payables	22	**—**	(1,312,537)	—
Interest-bearing loans and borrowings	22	**(23,885,796)**	(16,084,353)	—
		(25,416,774)	(17,396,890)	—
Total liabilities		**(59,465,576)**	(28,767,608)	(1,332,491)
Net assets		**42,579,635**	53,140,253	56,892,673
Equity				
Share capital	25	**1,934,363**	1,851,516	1,792,015
Share premium account		**31,939,385**	30,911,013	30,387,514
Share-based payment reserve		**621,802**	569,729	433,715
Merger reserve		**46,206,390**	46,206,390	46,206,390
Accumulated loss		**(38,122,305)**	(26,398,395)	(21,926,961)
Total equity		**42,579,635**	53,140,253	56,892,673

The financial statements were approved by the Board of Directors and authorised for issue on 27 May 2010. They were signed on its behalf by:

Reza Vaziri
Chief Executive

Consolidated cash flow statement

For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 US$	Year ended 31 December 2008 (Restated) US$
Net cash outflow used in operating activities	26	**(4,520,532)**	(412,209)
Investing activities			
Expenditure on property, plant and equipment and mine development		**(15,733,989)**	(21,061,704)
Expenditure on intangible assets		**(1,402,839)**	(258,670)
Interest received	5	**808**	54,656
Net cash used in investing activities		**(17,136,020)**	(21,265,718)
Financing activities			
Proceeds from borrowings		**26,898,983**	16,084,353
Interest paid		**(5,171,605)**	(478,606)
Net cash generated from financing activities		**21,727,378**	15,605,747
Net increase/(decrease) in cash and cash equivalents		**70,826**	(6,072,180)
Cash and cash equivalents at beginning of year	20	**738,722**	6,810,902
Cash and cash equivalents at end of year	20	**809,548**	738,722

Consolidated statement of changes in equity

For the year ended 31 December 2009

	Notes	Share capital US$	Share premium US$	Share-based payment reserve US$	Merger reserve US$	Accumulated loss US$	Total equity US$
At 1 January 2008		1,792,015	30,387,514	1,852,752	46,206,390	(23,345,998)	56,892,673
Changes from prior period error	3	—	—	(1,419,037)	—	1,419,037	—
At 1 January 2008 (Restated)		1,792,015	30,387,514	433,715	46,206,390	(21,926,961)	56,892,673
Loss for the year		—	—	—	—	(4,471,434)	(4,471,434)
Other comprehensive income		—	—	—	—	—	—
Total comprehensive income		—	—	—	—	(4,471,434)	(4,471,434)
Shares issued		59,501	523,499	—	—	—	583,000
Share-based payment charge for period	26	—	—	136,014	—	—	136,014
At 31 December 2008 (Restated)		1,851,516	30,911,013	569,729	46,206,390	(26,398,395)	53,140,253
Loss for the year		—	—	—	—	(11,723,910)	(11,723,910)
Other comprehensive income		—	—	—	—	—	—
Total comprehensive income		—	—	—	—	(11,723,910)	(11,723,910)
Shares issued		82,847	1,028,372	—	—	—	1,111,219
Share-based payment charge for period	26	—	—	52,073	—	—	52,073
At 31 December 2009		**1,934,363**	**31,939,385**	**621,802**	**46,206,390**	**(38,122,305)**	**42,579,635**

Notes to the consolidated financial statements

For the year ended 31 December 2009

1. Going concern

The Directors' assumptions over the projected gold and silver prices, discount rates, mine operating costs and levels of production from the Gedabek mine are crucial to Anglo Asian Mining PLC and its subsidiaries (the 'Group') meeting its forecast cash flows for the period to 30 June 2011. There is no longer a risk of delay in commencement of production as initial production commenced in July 2009, with the mine being classified as entering into commercial production from 1 July 2009. There still remains a risk that future production levels may be lower than anticipated due to unforeseen operational difficulties.

However, the Directors remain confident in their projections and if production and pricing continues at the same levels the mine has exhibited since March 2010, the Group will either meet or exceed its forecast production targets for the period to 30 June 2011.

As highlighted in note 22 to the consolidated financial statements, the Group is reliant on debt financing from the International Bank of Azerbaijan to cover its day-to-day working capital requirements, however, this reliance has decreased since 2008 as a result of the Group commencing production of gold and silver during the year and becoming cash generative. Since the year end, the Group has renegotiated the terms of its debt with the International Bank of Azerbaijan and other Azerbaijani banks so that repayment commences from May 2010.

After making enquiries, the Directors have formed a judgement, which assumes at the time of approving the consolidated 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. These resources include the anticipated revenues from the projected gold, silver and copper production at Gedabek at the current strong prices, existing cash balances, existing debt facilities and the Group's ability to raise further funds through either debt or equity should market prices for gold fall, production levels fall or be delayed or if operating costs increase. The current forecasts demonstrate that with the existing cash resources and the level of production and the sales price for the period expected, it will provide sufficient funds for the Group to meet its liabilities as they become due.

The Board is aware of the difficulties involved in accurately forecasting mine operating costs, the price of gold and levels of production. If there are either cost overruns or reduced revenues then the Board will have to take steps to ensure that there is adequate funding for the 12 month period subsequent to the date of the approval of these consolidated financial statements. In the event of any such instances the Board has sufficient options available to preserve cash including major shareholders on the Board having confirmed that they would be willing to provide additional funding in such an event, deferral of discretionary capital expenditure and exploration expenditure and if required, the Board also considers that extended working capital facilities could be negotiated with Bank Standard JSC.

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

2. General information

Anglo Asian Mining PLC is a public limited company incorporated in the UK under the Companies Act 2006. The address of the registered office and principal place of business are given on the inside back cover. The Group's ordinary shares are traded on the Alternative Investment Market ('AIM') 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 11 to 13.

These consolidated financial statements are presented in US Dollars. Foreign operations are included in accordance with the policies set out in note 3.

3. Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group are presented as required by the Corporations Act 2006 and were approved for issue on 27 May 2010. These consolidated financial statements, for the year ended 31 December 2009 and 31 December 2008, are prepared in accordance with the International Financial Reporting Standards as adopted by the EU ('IFRS'). The consolidated financial statements have also been prepared in accordance with International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Anglo Asian Mining PLC (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 entity so as to obtain benefits from its activities.

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

3. Significant accounting policies continued

Reclassifications and restatements

Certain 2008 amounts were reclassified to conform to the presentation of the 2009 consolidated financial statements. These reclassifications are summarised below:

- Exploration and evaluation assets on Gedabek mine of $6,250,641 were reclassified from 'Intangible assets' to 'Property, plant and equipment'.
- Prepayments for non-current assets purchases of $509,794 were reclassified from 'Trade and other receivables' to 'Non-current prepayments'.
- Payment for land compensation in relation to Gedabek mine of $177,637 and $74,713 were reclassified from 'Trade and other receivables' and 'Property, plant and equipment' respectively to 'Intangible assets'.
- Payment for the purchase and installation of accounting software of $45,770 was reclassified from 'Property, plant and equipment' to 'Intangible assets'.
- Letters of credit with a due date of over one year of $1,312,537 were reclassified from 'Interest-bearing loans and borrowings' to 'Long-term trade and other payables' and accordingly the statement of cash flows was reclassified from financing to operating activities.

Certain 2007 amounts were reclassified to conform to the presentation of 2009 consolidated financial statements. These reclassifications are summarised below:

- Exploration and evaluation assets on Gedabek mine of $6,250,641 were reclassified from 'Intangible assets' to 'Property, plant and equipment'.
- Payment for land compensation in relation to Gedabek mine of $252,350 was reclassified from 'Trade and other receivables' to 'Intangible assets'.

Correction of prior period error

Forfeited share-based reserve transfers related to 2005 through 2007 for the total amount of $1,419,037 were not recorded in the Group's income statement as at 1 January 2008. Out of this amount $666,926 was recorded in 2008 as a direct charge to the accumulated loss. The Group restated its comparative 2008 figures to correct this error and record the full amount as of 1 January 2008 as appropriate. The effect of the restatement on the share-based payment reserve and accumulated loss are as follows:

	Share-based payment reserve as previously stated	Share-based payment reserve as restated	Accumulated loss as previously stated	Accumulated loss as restated
At 1 January 2008	1,852,752	433,715	(23,345,998)	(21,926,961)
At 31 December 2008	1,321,840	569,729	(27,150,506)	(26,398,395)

Changes in accounting policies, new standards and interpretations not applied

The Group has adopted the following standards and interpretations from 1 January 2009:

IFRS 2 'Share-based Payment' (Revised)

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

IFRS 3 'Business Combinations' (Revised) and IAS 27 'Consolidated and Separate Financial Statements' (Amended)

The Group adopted the revised standards from 1 January 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. It did not have an impact on the financial position or performance of the Group.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. It did not have an impact on the financial position or performance of the Group.

IFRS 7 'Financial Instruments: Disclosures'

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 24.

IFRS 8 'Operating Segments'

IFRS 8 replaced IAS 14 'Segment Reporting' upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 4.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

3. Significant accounting policies continued

Changes in accounting policies, new standards and interpretations not applied continued

IAS 1 'Revised Presentation of Financial Statements'

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 'Borrowing Costs' (Revised)

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to capitalise borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset, so it did not have an impact on the financial position or performance of the Group. Borrowing costs and capitalised portion thereof are disclosed in note 11.

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

IAS 32 'Financial Instruments: Presentation' and IAS 1 'Puttable Financial Instruments and Obligations Arising on Liquidation'
IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
IFRIC 9 'Reassessment of Embedded Derivatives' and IAS 39 'Financial Instruments: Recognition and Measurement'

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

Standard or interpretation		Effective date
IFRS 2	Amendments to IFRS 2 Share-based Payments: Group Cash-settled share-based payment transactions	January 2010
IFRS 9	Financial Instruments (Phase 1 of new standard to replace IAS 39)	January 2013
IAS 24	Amendments to IAS 24 – Related Party Disclosures	January 2011
IAS 32	Amendments to IAS 32 – Classifications of Rights Issues Denominated in Foreign Currency	February 2010
IAS 39	Amendment to IAS 39 – Eligible Hedged Items	July 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	July 2009

Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below.

Ore reserves and resources

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves and mineral resources, based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body and requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, goodwill, provision for rehabilitation, and depreciation and amortisation charges.

Exploration and evaluation expenditure (note 14)

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a Joint Ore Reserves Committee ('JORC') resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the statement of comprehensive income in the period when the new information becomes available.

Impairment of tangible and intangible assets (note 10, 14 and 15)

The assessment of tangible and intangible assets for any internal and external indications of impairment involves judgement. Each reporting period, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use. Determining whether the projects are impaired requires an estimation of the value in use of the individual areas to which value has been ascribed. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the projects and a suitable discount rate in order to calculate present value.

3. Significant accounting policies continued

Significant accounting judgements, estimates and assumptions continued

Production start date

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and is reclassified from 'Assets under construction' to 'Producing mines' and 'Property, plant and equipment'. Some of the criteria will include, but are not limited to, the following:

- the level of capital expenditure compared to the construction cost estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- ability to produce metal in saleable form (within specifications); and
- ability to sustain ongoing production of metal.

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

Mine rehabilitation provision (note 23)

The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at balance sheet date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 'Property, Plant and Equipment'. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the income statement.

If the change in estimate results in an increase in the rehabilitation liability and therefore an addition to the carrying value of the asset, the entity is required to consider whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. For closed sites, changes to estimated costs are recognised immediately in the income statement. Also, rehabilitation obligations that arose as a result of the production phase of a mine should be expensed as incurred.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred to the buyer. Revenue is measured at the fair value of the consideration received or receivable.

The following criteria are also met in specific revenue transactions:

Gold bullion sales

Revenue from gold bullion sales is brought to account when the significant risks and rewards of ownership have transferred to the buyer and selling prices are known or can be reasonably estimated.

Interest revenue

Interest revenue is recognised as it accrues, using the effective interest rate method.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

3. Significant accounting policies continued

Foreign currencies continued

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.

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 recognised in other comprehensive income and accumulated in a separate component of equity – Group translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Current and deferred income taxes

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated 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. Deferred tax assets are 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.

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.

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Value-added taxes (VAT)

The Group pays VAT on purchases made in both Azerbaijan and UK. Under both jurisdictions, VAT paid is refundable. Azerbaijani jurisdiction permits offset of Azerbaijani VAT credit against other taxes payable to the state budget.

Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time the assets are considered substantially ready for their intended use i.e., when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the 'probable economic benefits' test. Any related borrowing costs are therefore generally recognised in the income statement in the period they are incurred.

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.

Once commercially viable reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred to 'Assets under construction'.

Upon transfer of 'Exploration and evaluation costs' into 'Assets under construction', all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within 'Assets under construction'. Development expenditure is net of proceeds from all but the incidental sale of ore extracted during the development phase. After production starts, all assets included in 'Assets under construction' are transferred to 'Producing mines'.

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.

3. Significant accounting policies continued

Intangible assets continued

Mining rights

Mining rights are carried at cost to the Group less any provisions for impairments which result from evaluations and assessments of potential mineral recoveries, and accumulated depletion. Mining rights are depleted on the unit-of-production basis over the total reserves of the relevant area.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Property, plant and equipment and mine properties

Upon completion of mine construction, the assets are transferred into property, plant and equipment or producing mines. Items of property, plant and equipment and producing mines are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development.

Depreciation/amortisation

Accumulated mine development costs within producing mines are depreciated/amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight line method is applied. The unit of account for run of mines (‘ROM’) costs and for post-ROM costs are recoverable ounces of gold. The unit-of-production rate for the depreciation/amortisation of mine development costs takes into account expenditures incurred to date.

The premium paid in excess of the intrinsic value of land to gain access is amortised over the life of mine.

Other plant and equipment such as mobile mine equipment is generally depreciated on a straight line basis over their estimated useful lives as follows:

- Temporary buildings – 8 years
- Plant and equipment – 8 years
- Motor vehicles – 4 years
- Office equipment – 4 years
- Leasehold improvements – 8 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The asset’s residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period, and adjusted prospectively if appropriate.

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Group through an extended life, the expenditure is capitalised.

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other day-to-day maintenance costs are expensed as incurred.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

3. Significant accounting policies continued

Impairment of tangible and intangible assets

The Group conducts annual internal assessments of the carrying values of tangible and intangible assets. The carrying values of capitalised exploration and evaluation expenditure, mine properties and property, plant and equipment are assessed for impairment when indicators of such impairment exist or at least annually. In such cases an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash generating units ('CGUs') for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Group evaluating its non-financial assets on a geographical or licence basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less cost to sell and value in use).

Impairment losses related to continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding the intangibles referred to above, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income. Impairment losses recognised in relation to goodwill or indefinite life intangibles are not reversed for subsequent increases in its recoverable amount.

Provisions

General

Provisions are recognised when (a), the Group has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Rehabilitation provision

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in the income statement as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognised immediately in the income statement.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits and trade and other receivables.

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 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 consolidated income statement when there is objective evidence that the asset is impaired.

3. Significant accounting policies continued

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

Trade and other payables

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

Loans and borrowings

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis and charged to the income statement using the effective interest method. They are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 24.

Non-current prepayments

Advances made to suppliers for fixed asset purchases are recognised as non-current prepayments until the time when fixed assets are supplied.

Inventories

Metal in circuit consists of in-circuit material at properties with milling or processing operations and doré awaiting refinement, all valued at the lower of average cost and net realisable value. In-process inventory costs consist of direct production costs including mining, crushing and processing; site administration costs; and allocated indirect costs, including depreciation, depletion and amortisation of producing mines and mining interests.

Ore stockpiles consist of stockpiled ore, ore on surface, crushed ore, all valued at the lower of average cost and net realisable value. Ore stockpile costs consist of direct costs including mining, crushing, site administration costs; and allocated indirect costs, including depreciation, depletion and amortisation of producing mines and mining interests.

Inventory costs are charged to operations on the basis of ounces of gold sold. The Group regularly evaluates and refines estimates used in determining the costs charged to operations and costs absorbed into inventory carrying values based upon actual gold recoveries and operating plans.

Finished goods consists of doré bars that have been refined and assayed and are in a form that allows them to be sold on international bullion markets. Finished goods are valued at the lower of average cost and net realisable value. Finished goods costs consist of direct production costs including mining, crushing and processing; site administration costs; and allocated indirect costs, including depreciation, depletion and amortisation of producing mines and mining interests.

Spare parts and consumables consists of consumables used in operations, such as fuel, chemicals, re-agents and spare parts, valued at the lower of average cost and replacement cost and, where appropriate, less a provision for obsolescence.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, or value of services received net of any issue costs.

Deferred stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine and subsequently amortised over the life of the mine on a units-of-production basis.

Stripping costs incurred subsequently during the production stage of its operation are deferred for those operations where this is the most appropriate basis for matching the cost against the related economic benefits and the effect is material. This is generally the case where there are fluctuations in stripping costs over the life of the mine. The amount of stripping costs deferred is based on the strip ratio obtained by dividing the tonnage of waste mined either by the quantity of ore mined or by the quantity of minerals contained in the ore. Stripping costs incurred in the period are deferred to the extent that the current period ratio exceeds the life of the mine strip ratio. Such deferred costs are then charged to the statement of comprehensive income to the extent that, in subsequent periods, the current period ratio falls short of the life of mine (or pit) ratio. The life of mine (or pit) ratio is based on economically recoverable reserves of the mine (or pit). Changes are accounted for prospectively, from the date of the change.

Deferred stripping costs are included as part of 'Mine properties'. These form part of the total investment in the relevant cash generating units, which are reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

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 consolidated 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. The vesting conditions assumptions are reviewed during each reporting period to ensure they reflect current expectations.

4. Segment information

The operations of the Group are all located within the Republic of Azerbaijan. The Group has one producing asset, its gold and copper mine in Gedabek. All sales are made to one customer, the Group's gold refinery, MKS Finance SA based in Switzerland. The management of the Group do not segment the business when evaluating its performance.

5. Revenue

The Group's revenue consists of bullion sold to a third-party customer (2008: $nil). Interest income consists of interest earned on cash accounts and short-term deposits (2008: $54,656).

6. Other operating expenses

Other operating expenses consist of metal processing costs, profit/loss on disposal of property, plant and equipment, depreciation of rehabilitation provision, foreign currency exchange net loss, and miscellaneous operating expenses.

7. Operating loss

	Notes	**Year ended 31 December 2009 US$**	Year ended 31 December 2008 US$
Operating loss is stated after charging:			
Depreciation on property, plant and equipment – owned	15	**3,825,655**	636,477
Amortisation of mining rights and other intangible assets	14	**1,310,505**	—
Employee benefits and expenses	9	**5,846,590**	1,959,486
Impairment of mining rights	10,14	**5,000,000**	—
Impairment of evaluation and exploration expenditure	10,14	**773,180**	—
Net foreign currency exchange loss		**223,280**	49,342
Loss on disposal of fixed assets	15	**167,025**	1,829
Expenses classified as inventories	19	**(8,799,906)**	—
The analysis of auditors' remuneration is as follows:			
Fees payable to the Group's auditors for the audit of the Group's annual accounts		**66,700**	107,050
The audit of the Group's subsidiaries pursuant to legislation		**78,300**	4,000
Total audit fees		**145,000**	111,050
Tax services		**—**	28,305
Total non-audit services		**13,000**	28,305

The audit fees for the parent company were $15,000 (2008: $22,210).

8. Remuneration of Directors

Year ended 31 December 2009	Salary US$	Bonus US$	Consultancy US$	Fees US$	Pension US$	Benefits US$	Total US$
Ross Bhappu*	—	—	—	—	—	—	—
Richard Round	—	—	—	**31,319**	—	—	**31,319**
John Sununu	—	—	—	**91,607**	—	—	**91,607**
Khosrow Zamani	—	—	—	**78,296**	—	—	**78,296**
Reza Vaziri	—	—	**244,285**	**21,923**	—	—	**266,208**
John Monhemius	—	—	**7,830**	**10,987**	—	—	**18,817**
Total	—	—	**252,115**	**234,132**	—	—	**486,247**

* Fees of $10,962 in relation to the services of Ross Bhappu as a Non-executive Director for the period ended 31 December 2009 are payable to RCF Management LLC, a company related to but not controlled by Ross Bhappu. Ross Bhappu resigned on 23 July 2009 and fees are no longer payable to him or RCF Management LLC.

Directors' fees and consultancy fees amounting to $111,802 included above were paid in shares.

Year ended 31 December 2008	Salary US$	Bonus US$	Consultancy US$	Fees US$	Pension US$	Benefits US$	Total US$
Ross Bhappu*	—	—	—	—	—	—	—
Tim Eggar**	—	—	—	22,683	—	—	22,683
Gordon Lewis†	251,456	110,110	—	—	20,646	53,004	435,216
Richard Round	48,716	—	—	16,047	1,888	—	66,651
John Sununu	—	—	—	33,033	—	—	33,033
Khosrow Zamani	—	—	—	91,758	—	—	91,758
Reza Vaziri	—	—	286,286	25,692	—	—	311,978
Total	300,172	110,110	286,286	189,213	22,534	53,004	961,319

* Fees of $25,692 in relation to the services of Ross Bhappu as a Non-executive Director for the period ended 31 December 2008 are payable to RCF Management LLC, a company related to but not controlled by Ross Bhappu.

** The fees payable to Tim Eggar have terminated from 23 July 2008, the date of his resignation.

† Pension fees payable to Gordon Lewis were accrued but not paid in to a scheme. Mr Lewis resigned from his position on 30 September 2008.

Directors' fees, pensions and bonuses amounting to $443,382 included above were paid in shares.

9. 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 2009 Number	Year ended 31 December 2008 Number
Management and administration	**36**	35
Processing and exploration	**74**	37
Mine operations	**195**	171
Total	**305**	243

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2009 US$	Year ended 31 December 2008 US$
Wages and salaries	**4,719,945**	3,067,930
Share-based payments	**52,073**	136,014
Social security costs	**1,074,572**	547,412
Pension costs	—	48,575
	5,846,590	3,799,931
Less: salary costs capitalised as exploration, evaluation development, fixed asset and inventory expenditure	**(2,381,091)**	(1,840,445)
Total employee costs	**3,465,499**	1,959,486

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

9. Staff numbers and costs continued

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 2009 US$	Year ended 31 December 2008 US$
Short-term employee benefits	**486,247**	938,785
Post-employment benefits	**—**	22,534
Share-based payment	**25,890**	122,850
	512,137	1,084,169

10. Write down of capitalised intangible assets

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

	Year ended 31 December 2009 US$	Year ended 31 December 2008 US$
Write down of capitalised exploration and evaluation expenditure (note 14)	**773,180***	—
Write down of mining rights (note 14)	**5,000,000****	—
	5,773,180	—

* During the year, the Group has concluded that it is unlikely to realise value at Sharkadara, Misdag, Shalala and Diakchay mining properties within the Ordubad contract area. The Group has therefore taken the decision to write down all of the exploration and evaluation expenditure incurred on these mining properties.

** The Group also carried out an impairment analysis on the $5 million of mining rights for the Ordubad contract area and concluded that it is unlikely to realise value at any of the Ordubad properties. Therefore impairment was recognised for the full amount as of 31 December 2009.

11. Finance costs

	Year ended 31 December 2009 US$	Year ended 31 December 2008 US$
Bank interest	**4,649,094**	825,910
Finance charges on letters of credit and accretion expenses	**245,781**	—
Interest capitalised during period	**(1,631,889)**	(825,910)
Total finance cost	**3,262,986**	—

Bank interest represents charges incurred on credit facilities with the International Bank of Azerbaijan and a loan from Mr Reza Vaziri, a Director of the Group, Bank Standard JSC and Pasha Bank. The interest levied on all of the credit facilities provided by the International Bank of Azerbaijan is 15% per annum (2008: 15%), interest on the loan from Reza Vaziri is at 8% per annum (2008: nil), interest on the Bank Standard JSC credit line is at 19% (2008: nil) and interest on the loan from Pasha Bank is at 17% (2008: nil). The credit facilities were provided for the purpose of constructing and developing the Gedabek gold mine and paying for interest on loans.

Where a portion of the loans has been used to finance the construction and purchase of assets of the Group, the interest on that portion of the loans has been capitalised up until the time the assets were substantially ready for use (note 15).

12. Taxation

Corporation tax is calculated at 28.0% (which represents a weighted average for the year) (2008: 28.5%) 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 2009 US$	Year ended 31 December 2008 US$
Loss before tax	**(11,723,910)**	(4,471,434)
Tax at the UK corporation tax rate of 28.0% (2008: 28.5%)	**3,282,695**	1,274,359
Expenses not deductible for tax purposes	**(2,951,790)**	(126,103)
Unrecognised tax losses	**(635,979)**	(1,148,256)
Total tax	**—**	—

Deferred taxation

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. 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 and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

At the balance sheet date, the Group has unused tax losses of $43,413,647 (2008: losses of $18,220,551) 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.

Factors that may affect future current and total tax charges

The unrecognised deferred tax asset 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 11.28 cents (2008: loss per share of 4.41 cents) has been based on a weighted average number of shares in issue of 103,977,437 (2008: 101,280,008) and a loss of $11,723,910 (2008: loss of $4,471,434).

Basic and dilutive Earnings Per Share 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 2009

14. Intangible assets

Evaluation and exploration assets

	Gedabek US$	Gosha US$	Ordubad US$	Total US$
Cost				
As at 1 January 2008	—	453,870	1,097,927	1,551,797
Additions	160,328	155,052	36,954	352,334
As at 31 December 2008	160,328	608,922	1,134,881	1,904,131
Additions	586,629	162,117	936,396	1,685,142
Provision for impairment	—	—	(773,180)	(773,180)
As at 31 December 2009	**746,957**	**771,039**	**1,298,097**	**2,816,093**

Mining rights and other intangible assets

	Mining rights US$	Other intangible assets US$	Total US$
Cost			
As at 1 January 2008 (Restated)	41,925,262	252,350	42,177,612
Additions	—	45,770	45,770
As at 31 December 2008 (Restated)	41,925,262	298,120	42,223,382
Provision for impairment	(5,000,000)	—	(5,000,000)
Additions	—	16,125	16,125
Amortisation	(1,293,360)	(17,145)	(1,310,505)
As at 31 December 2009	**35,631,902**	**297,100**	**35,929,002**
Total intangible assets			
As at 31 December 2008 (Restated)			44,127,513
As at 31 December 2009			**38,745,095**

Mining rights and other intangible assets started amortisation in 2009, therefore amortisation charge and accumulated amortisation balances are nil for 2008.

15. Property, plant and equipment

	Temporary buildings US$	Plant and equipment US$	Producing mines US$	Motor vehicles US$	Office equipment US$	Leasehold improvements US$	Assets under construction US$	Total US$
Cost								
As at 1 January 2008 (Restated)	299,807	289,773	—	128,142	406,463	437,708	6,326,587	7,888,480
Development – Gedabek	—	—	—	—	—	—	3,766,605	3,766,605
Capitalisation of interest	—	—	—	—	—	—	825,910	825,910
Additions	2,723	3,359,228	—	260,201	613,072	649	19,374,998	23,610,871
Disposals	—	—	—	—	(4,850)	—	—	(4,850)
As at 31 December 2008 (Restated)	302,530	3,649,001	—	388,343	1,014,685	438,357	30,294,100	36,087,016
Development – Gedabek	—	—	—	—	—	—	1,989,472	1,989,472
Capitalisation of interest	—	—	—	—	—	—	1,631,889	1,631,889
Additions	227	1,263,100	1,504,647	97,945	227,784	—	10,518,506	13,612,209
Transfer to producing mines	—	1,111,710	38,079,581	—	—	—	(39,191,291)	—
Disposals	—	—	(170,000)	(53,350)	—	—	—	(223,350)
As at 31 December 2009	**302,757**	**6,023,811**	**39,414,228**	**432,938**	**1,242,469**	**438,357**	**5,242,676**	**53,097,236**
Accumulated depreciation and impairment								
As at 1 January 2008 (Restated)	(33,878)	(55,925)	—	(62,318)	(149,573)	(94,097)	—	(395,791)
Charge for year	(80,887)	(251,659)	—	(53,948)	(147,740)	(102,243)	—	(636,477)
Depreciation on disposals	—	—	—	—	3,021	—	—	3,021
As at 31 December 2008 (Restated)	(114,765)	(307,584)	—	(116,266)	(294,292)	(196,340)	—	(1,029,247)
Charge for year	(37,837)	(812,018)	(2,605,092)	(101,934)	(213,979)	(54,795)	—	(3,825,655)
Depreciation on disposals	—	—	38,958	17,367	—	—	—	56,325
As at 31 December 2009	**(152,602)**	**(1,119,602)**	**(2,566,134)**	**(200,833)**	**(508,271)**	**(251,135)**	**—**	**(4,798,577)**
Carrying amount								
As at 31 December 2008 (Restated)	187,765	3,341,417	—	272,077	720,393	242,017	30,294,100	35,057,769
As at 31 December 2009	**150,155**	**4,904,209**	**36,848,094**	**232,105**	**734,198**	**187,222**	**5,242,676**	**48,298,659**

The capital commitments by the Group have been disclosed in note 28.

16. Non-current prepayments

Non-current prepayments represent advances made to suppliers for fixed asset purchases.

17. 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 6 in the Company's financial statements.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

18. Trade and other receivables

	As at 31 December 2009 US$	As at 31 December 2008 (Restated) US$
Receivable on behalf of the Government of Azerbaijan	**1,589,009**	—
VAT refund due	**1,026,609**	629,945
Trade receivables	**804,750**	—
Prepayments	**279,167**	302,739
Advances	**89,649**	541,379
Other receivables	**47,501**	—
	3,836,685	1,474,063

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

The VAT refund due at 31 December 2009 and 2008 relates to VAT paid on purchases made in the second half of 2008 and 2007, respectively.

The Group has a trade receivable amount of $804,750 which relates to its bullion sales. The entire trade receivable amount is with the Group's one customer, its refiner, MKS Finance SA.

The amount of $1,589,009 receivable on behalf of the Government of Azerbaijan relates to bullion held in the account of the Group for which the Government of Azerbaijan is the beneficial holder. The Group holds the Government's share of the product from its mining activities and from time to time transfers that product to the Government of Azerbaijan. A corresponding liability to the Government of Azerbaijan is included in trade and other payables shown in note 21.

The Group does not consider any trade and other receivables as past due or impaired.

19. Inventories

	As at 31 December 2009 US$	As at 31 December 2008 US$
At cost		
Finished goods – bullion	**143,113**	—
Metal in circuit	**6,887,210**	—
Ore stockpiles	**1,769,583**	—
Spare parts and consumables	**1,476,118**	—
	10,276,024	—

20. Cash and cash equivalents

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.

21. Trade and other payables

	As at 31 December 2009 US$	As at 31 December 2008 US$
Trade creditors	**8,690,623**	4,453,373
Gold inventory held on behalf of the Government of Azerbaijan	**1,589,009**	—
Other payables and accruals	**4,671,630**	6,917,345
	14,951,262	11,370,718

Trade creditors and other payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Trade creditors are non-interest bearing and the creditor days were 139 (2008: 35). The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Letters of credit totalling $3,161,581 were negotiated with several European banks and guaranteed by the International Bank of Azerbaijan at 31 December 2009 to finance fixed asset additions currently due within trade creditors.

22. Interest-bearing loans and borrowings

	As at 31 December 2009 US$	As at 31 December 2008 (Restated) US$
Loans from IBA	**40,969,133**	17,396,890
Loan from Bank Standard JSC	**410,529**	—
Loan from Pasha Bank	**450,000**	—
Loan from Reza Vaziri	**995,040**	—
Advance from Reza Vaziri – non-interest bearing	**158,634**	—
Total interest-bearing loans and borrowings	**42,983,336**	17,396,890
Loans repayable in less than one year	**19,097,540**	—
Loans repayable in more than one year	**23,885,796**	16,084,353
Trade and other payables due in more than one year	**—**	1,312,537
Total more than one year	**23,885,796**	17,396,890

In addition to the $25.0 million credit facility obtained with the International Bank of Azerbaijan during 2008, the Group obtained three further loans from the International Bank of Azerbaijan for the value of $9.4 million, $6.5 million and $3.0 million giving an aggregate of $18.9 million. All loans carry an interest rate of 15% per annum. The loan of $9.4 million is to be repaid in nine quarterly instalments (first eight tranches of $1,044,000 and a ninth tranche of $1,048,000) with the first instalment due in March 2011 and then every three months to March 2013. The loan of $6.5 million is to be repaid in 13 instalments of $500,000 with the first instalment due in June 2010 and then every three months until June 2013. The loan of $3.0 million is to be repaid in six monthly instalments of $500,000 beginning from April 2010. There is no penalty for early repayment of any of the loan from the International Bank of Azerbaijan.

The loan from Pasha Bank is secured by a floating charge over certain of the Group's assets (equipment with net book value of $540,000 as of 31 December 2009).

Subsequent to the year-end date, the repayment terms of three of the loans from the International Bank of Azerbaijan have been revised (see note 30).

The Group has obtained a US$1.0 million unsecured loan with its CEO, Mr Reza Vaziri, to provide additional working capital for the Group. Under the terms of the loan agreement, an all inclusive annual interest rate of 8% per annum will be applied. 20% of initial net gold sales will be used to service repayment of this loan with the latest date for the outstanding balance to be paid in full being 7 February 2010. Subsequent to the year-end date, the repayment terms of this loan has been revised (see note 30).

The Group obtained a credit line from Bank Standard JSC for an amount of $1.0 million repayable on 11 December 2010. Interest is payable on the credit line at 19% per annum.

The Group has obtained a loan from Pasha Bank for $450,000 for the purposes of purchasing two mining fleet vehicles. Interest is payable at 17%. The loan is to be repayable in instalments with the last instalment payable in December 2010.

As at 31 December 2009 the Group had undrawn facilities of $589,471 (2008: $5,663,778) after consideration of the letters of credit which are guaranteed by the International Bank of Azerbaijan.

23. Provision for rehabilitation

	US$
Cost	
As at 1 January 2009	—
Capitalised as mine development	1,504,647
Unwinding of discount	26,331
As at 31 December 2009	**1,530,978**
Current	—
Non-current	1,530,978
As at 31 December 2009	**1,530,978**

The Group is exposed to restoration, rehabilitation and environmental liabilities relating to its mining operations. Estimates of the cost of this work including reclamation costs, close down and pollution control are made on an ongoing basis, based on the estimated life of the mine. This represents the net present value of the best estimate of the expenditure required to settle the obligation to rehabilitate environmental disturbances caused by mining operations ($3,130,000 undiscounted liability, discounted using a risk free rate of 3.5%).

Expenditure on restoration and rehabilitation is expected to commence in 2015. Should additional reserves be found and the life of the mine extended, then the expenditure on restoration and rehabilitation will be delayed until the reserves of the mine have been extracted.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

24. Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, loans and letters of credit. 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 main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are commodity price risk, cash flow interest rate risk, foreign currency risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarised below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable. Financial instruments affected by market risk include bank loans and overdrafts, accounts receivable, accounts payable and accrued liabilities.

The sensitivity has been prepared for the years ended 31 December 2009 and 2008 using the amounts of debt and other financial assets and liabilities held as at those reporting dates.

The Group has not used derivative financial instruments during 2009 or the prior year. The Board will review the need for the use of derivative financial instruments on an ongoing basis.

Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Group has sufficient capital to fund on-going production and exploration activities, with capital requirements reviewed by the Board on a regular basis. Capital has been sourced through share issues on AIM, part of the London Stock Exchange and loans from the International Bank of Azerbaijan, other Azerbaijani banks and its CEO, Mr Reza Vaziri. In managing its capital, the Group's primary objective once production has commenced is to ensure its continued ability to provide a consistent return for its equity shareholders through capital growth. In order to achieve this objective the Group seeks to maintain a gearing ratio that balances risk and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs.

The Group is not subject to externally imposed capital requirements. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio below 70%. The Group includes within net debt, interest-bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

	As at 31 December 2009 US$	As at 31 December 2008 (Restated) US$
Interest-bearing loans and borrowings (note 22)	**42,983,336**	17,396,890
Trade and other payables (note 21)	**14,951,262**	11,370,719
Less cash and cash equivalents (note 20)	**(809,548)**	(738,722)
Net debt	**57,125,050**	28,028,887
Equity	**42,579,635**	53,140,253
Capital and net debt	**99,704,685**	81,169,140
Gearing ratio	**57%**	35%

Interest rate risk management

The Group is exposed to interest rate risk as some letters of credit have been taken out by the Group at both fixed and floating interest rates. The Group also has cash and cash equivalents which earn interest. All borrowings and interest-bearing loans of the Group are at a fixed rate of interest. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, with approval from the Directors 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 2009.

24. Financial instruments continued

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 2009

Floating rate	Within 1 year	More than 1 year	Total
Cash and cash equivalents	**809,548**	**—**	**809,548**

Year ended 31 December 2008

Floating rate	Within 1 year	More than 1 year	Total
Cash and cash equivalents	738,722	—	738,722

Interest rate risk profile of financial liabilities

The following table sets out the carrying amount, by maturity of the Group's financial liabilities. All loans are at a fixed rate of interest:

Year ended 31 December 2009

Fixed rate	Within 1 year	More than 1 year	Total
Borrowings	**19,097,540***	**23,885,796**	**42,983,336**
Letters of credit	**1,887,712**	**—**	**1,887,712**
Floating rate			
Letters of credit	**1,273,869**	**—**	**1,273,869**

* Subsequent to year end the International Bank of Azerbaijan revised the repayment terms to defer repayment from the original dates. Refer to note 30.

Interest rate sensitivity analysis

The sensitivity analysis below has 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 2009 would decrease/increase by $6,369 (2008: decrease/increase by $12,180). This is attributable to the Group's exposure to interest rates on its floating rate letters of credit.

All borrowings have been made at fixed interest rates.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial liabilities. Included in note 22 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2009

	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	> 5 years $	Total $
Interest-bearing loans and borrowings	**998,663**	**1,659,568**	**22,034,830**	**27,230,250**	**—**	**51,923,311**
Trade and other payables	**3,182,101**	**8,607,580**	**3,161,581**	**—**	**—**	**14,951,262**
Other liabilities	**—**	**—**	**—**	**—**	**1,530,978**	**1,530,978**
	4,180,764	**10,267,148**	**25,196,411**	**27,230,250**	**1,530,978**	**68,405,551**

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

24. Financial instruments continued

Liquidity risk management continued

Year ended 31 December 2008

	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	> 5 years $	Total $
Interest-bearing loans and borrowings	—	603,163	1,809,490	17,780,892	—	20,193,545
Trade and other payables	1,171,150	8,260,236	1,939,332	1,312,537	—	12,683,255
Other liabilities	—	—	—	—	—	—
	1,171,150	8,863,399	3,748,822	19,093,429	—	32,876,800

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date.

The Group has adopted a policy of only dealing with creditworthy banks. Trade receivables consist of amounts due to the Group from sales of gold and silver. All sales are made to MKS Finance SA, a Switzerland based gold refinery. Due to the nature of the customer, the Board does not feel that a significant credit risk exists for receipt of revenues as the parties are effectively state owned. The Board continually reviews the possibilities of selling gold to alternative customers and also the requirement for additional measures to mitigate any potential credit risk.

Foreign currency risk 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	
	2009 US$	2008 US$	**2009 US$**	2008 US$
UK Sterling	**338,612**	108,350	**17,577**	52,543
Azerbaijan Manats	**4,280,846**	1,587,612	**1,240,239**	1,000,944
Other	**143,767**	120,842	**19,654**	37,857

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 20% (2008: 20%) increase and decrease in the US Dollar against the relevant foreign currencies. 20% (2008: 20%) 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 20% (2008: 20%) change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the US Dollar strengthens by 20% (2008: 20%) against the relevant currency. For a 20% (2008: 20%) 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 Manat impact	
	2009 US$	2008 US$	**2009 US$**	2008 US$
Profit	**64,207**	11,161	**608,121**	117,334

Market risk

The Group's activities primarily expose it to the financial risks of changes in gold, silver and copper prices which have a direct impact on revenues. The Board monitors both the spot and forward price of these regularly and now that production is becoming more reliable will review the possibility of using forward contracts and derivative financial instruments to manage this risk.

A 10% decrease in gold price would result in a reduction in profit of $1,020,787 and a 10% increase in gold prices would result in an increase in profit of $1,020,787. A 10% decrease in silver price would result in a reduction in profit of $4,898 and a 10% increase in silver prices would result in an increase in profit of $4,898.

25. Equity

	As at 31 December 2009 £	As at 31 December 2008 £
Authorised:		
600,000,000 ordinary shares of 1 pence each	**6,000,000**	6,000,000

	US$	US$
Issued and fully paid:		
108,945,949 ordinary shares of 1 pence each (2008: 102,721,921 ordinary shares of 1 pence each)	**1,934,363**	1,851,516

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

	Shares	US$
Ordinary shares issued and fully paid:		
At 1 January 2008	99,621,880	1,792,015
Issued to Directors in lieu of salary, fees and expenses	2,769,242	52,850
Issued to a trade creditor in lieu of cash payment	330,799	6,651
At 31 December 2008	102,721,921	1,851,516
Issued to Directors in lieu of salary, fees and expenses	889,137	14,239
Issued to a trade creditor in lieu of cash payment	3,011,863	30,929
Issued to Mr Reza Vaziri in satisfaction of a loan repayment	1,973,028	31,983
Exercise of stock options	350,000	5,696
At 31 December 2009	**108,945,949**	**1,934,363**

Share options

The Group has share option scheme under which options to subscribe for the Company's shares have been granted to certain executives and senior employees (note 27).

Merger reserve

The merger reserve was created in accordance with the merger relief provisions under Section 612 of the Companies Act 2006 (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.

Accumulated loss

Accumulated loss represents the cumulative loss of the Group attributable to the equity shareholders.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

26. Notes to the cash flow statement

	Year ended 31 December 2009 US$	Year ended 31 December 2008 US$
Loss before tax	**(11,723,910)**	(4,471,434)
Adjustments for:		
Finance income (note 5)	**(808)**	(54,656)
Finance costs (note 11)	**3,262,986**	—
Depreciation of property, plant and equipment (note 15)	**3,825,655**	636,477
Amortisation of mining rights and other intangible assets (note 14)	**1,310,505**	—
Loss on disposal of property, plant and equipment (note 7)	**167,025**	—
Share-based payment expense (note 9)	**52,073**	136,014
Shares issued in exchange for salaries and fees	**1,111,220**	583,000
Impairment of evaluation and exploration expenditure (note 14)	**773,180**	—
Impairment of mining rights (note 14)	**5,000,000**	—
Operating cash flows before movements in working capital	**3,777,926**	(3,170,599)
Increase in trade and other receivables	**(2,362,624)**	(1,281,899)
Increase in inventories	**(10,276,024)**	—
Increase in trade and other payables	**4,340,190**	4,040,289
Cash used in operations	**(4,520,532)**	(412,209)
Income taxes paid	**—**	—
Net cash used in operating activities	**(4,520,532)**	(412,209)

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.

27. Share-based payments

Equity-settled share options

The Group operates a share option scheme for Directors and senior employees of the Group as well as its financial adviser and nominated adviser and broker from the listing in 2005. 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 Group'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:

	2009		2008	
	Number of share options	**Weighted average exercise price Pence**	Number of share options	Weighted average exercise price Pence
Outstanding at beginning of year	**4,610,152**	**23**	8,174,953	48
Granted during the year	**150,000**	**12**	2,050,000	5
Lapsed during the year	**—**	**—**	(1,983,436)	77
Forfeited during the year	**(183,468)**	**43**	(3,631,365)	35
Exercised during the year	**(350,000)**	**5**	—	—
Outstanding at 31 December	**4,226,684**	**23**	4,610,152	23
Exercisable at 31 December	**3,093,351**	**29**	1,967,045	42

The options outstanding at 31 December 2009 had a weighted average exercise price of 23 pence (ranging from 4.75 pence to 77 pence) and a weighted average remaining contractual life of eight years. In the year ended 31 December 2009, options were granted on 14 August 2009. The aggregate of the estimated fair values of the options granted on those dates is £17,250 ($28,242). In 2008 options were granted on 31 July and 2 December. The aggregate of the estimated fair values of the options granted on those dates is £38,185 ($76,840).

27. Share-based payments continued

Equity-settled share options continued

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

Granted on 14 August 2009	
Weighted average share price	£0.12
Weighted average exercise price	£0.12
Expected volatility	80%
Expected life	2 years
Risk free rate	4.5%

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 14 August 2009 is £0.12.

Granted on 1 August 2008	
Weighted average share price	£0.09
Weighted average exercise price	£0.09
Expected volatility	49%
Expected life	2 years
Risk free rate	4.75%

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 August 2008 is £0.03.

Granted on 4 December 2008	
Weighted average share price	£0.05
Weighted average exercise price	£0.05
Expected volatility	63%
Expected life	2 years
Risk free rate	4.25%

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 4 December 2008 is £0.02.

Total share-based payment expense recognised by the Group

The Group recognised total expenses of $52,073 and $136,014 related to equity-settled share-based payment transactions in 2009 and 2008 respectively.

The cumulative amount recognised in equity relating to share-based payments at the balance sheet date was $621,802 (2008: $1,321,840).

28. Contingencies and commitments

The Group undertakes its mining operations in the Azerbaijan Republic pursuant to the provisions of the Agreement on the Exploration, Development and Production Sharing for the Prospective Gold Mining Areas: Gedabek, Gosha, Ordubad Group (Piazbashi, Agyurt, Shakardara, Kiliyaki), Soutely, Kyzilbulag and Vejnali Deposits dated 20 August 1997 (the 'PSA'). The PSA contains various provisions relating to the obligations of the R.V. Investment Group Services LLC ('RVIG'), fully-owned subsidiary of the Company, with regards to exploration and development programme, preparation and timely submission of reports to the Government, compliance with environmental and ecological requirements, etc. The Directors believe that RVIG is in compliance with the requirements of the PSA. Exploration period on Ordubad and Gosha expires in April 2011, when the Group has to announce discovery or release the contract areas to the Government. The mining licence on Gedabek expires in March 2022.

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 were no operating lease commitments at 31 December 2009.

There were no capital commitments at 31 December 2009.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

29. 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 2009 and 2008, there were no trading transactions between Group companies and related parties who are not members of the Group.

Other related party transactions

a) 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 $91,598 (2008: $89,438).

b) Shares issued to Directors are disclosed in the Directors' Report.

c) During the year $244,285 (2008: $286,286) was paid to Mr Reza Vaziri for consultancy services.

d) Mr Reza Vaziri provided a loan to the Group in the amount of $998,663 (bearing 8% interest) and a non-interest bearing advance in the amount of $458,634, of which $300,000 was settled by share issuance.

e) During the year $23,918 of interest was accrued on the loan of $998,663 from Mr Reza Vaziri.

30. Events after the balance sheet date

The following subsequent events relate to the period from 31 December 2009 to the date of approval of the consolidated financial statements on 27 May 2009.

On 11 January 2010 the Company issued 604,188 ordinary shares in lieu of Directors' salaries. The shares were issued based on the closing share price on 31 December 2009 of 9 pence.

On 8 March 2010 the Company issued 66,667 ordinary shares to a creditor in lieu of payment of an invoice.

On 31 March 2010, the Company agreed with Mr Reza Vaziri, a Director of the Company, to reschedule the repayment of the outstanding principal amount of the loan from Mr Vaziri to 30 November 2010.

The Group agreed with the International Bank of Azerbaijan to reschedule loan repayments on three of its loans to May 2010. The table below shows the repayment schedule before and after the loan repayment schedule agreement:

	2010 US$	2011 US$	2012 US$	2013 US$	**Total US$**
Repayment schedule for IBA loans as at 31 December 2009	17,083,337	18,592,663	6,176,000	2,048,000	**43,900,000**
Impact of agreement to reschedule loan repayments	(8,416,665)	(3,583,335)	12,000,000	—	**—**
Repayment schedule for IBA loans as at 20 May 2010	8,666,672	15,009,328	18,176,000	2,048,000	**43,900,000**

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 2009 which comprise the Company Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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
As explained more fully in the Directors' Responsibilities Statement set out on page 13 the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company;
- the parent company financial statements are not in agreement with the accounting records and returns;
- certain disclosures of Directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of Anglo Asian Mining PLC for the year ended 31 December 2009.

Mirco Bardella (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 May 2010

1. The maintenance and integrity of the Anglo Asian Mining PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company balance sheet
As at 31 December 2009

	Notes	2009 US$	2008 (Restated) US$
Non-current assets			
Tangible assets	3	**62,044**	45,972
Investments	4	**1,325,007**	1,325,007
		1,387,051	1,370,979
Current assets			
Debtors – amounts falling due within one year	6	**26,186,905**	24,537,980
Cash at bank and in hand	7	**33,747**	379,252
		26,220,652	24,917,232
Trade creditors and accruals	8	**(3,039,880)**	(1,440,194)
Net current assets		**23,180,772**	23,477,038
Net assets		**24,567,823**	24,848,017
Share capital and reserves			
Called up share capital	10,11	**1,934,363**	1,851,516
Share premium account	11	**31,939,385**	30,911,013
Accumulated loss	11	**(9,305,925)**	(7,914,512)
Capital employed		**24,567,823**	24,848,017

These financial statements were approved by the Board of Directors on 27 May 2010 and were signed on its behalf by:

Reza Vaziri
Chief Executive

Notes to the Company financial statements

For the year ended 31 December 2009

1. Significant accounting policies and going concern

1a. Going concern

For the reasons set out in note 1 to the consolidated financial statements, 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 2006 and were approved for issue on 27 May 2010.

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

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006 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 under FRS 8 not to disclose transactions with wholly-owned subsidiaries.

Reclassification

A 2008 amount was reclassified to conform to the presentation of 2009 consolidated financial statements. This reclassification is summarised below:

- Payment for a movable laboratory of $154,615 was reclassified from 'Tangible assets' to 'Debtors – amount falling due in one year'.

Tangible assets

Tangible 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.

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 – straight line over 4 years

Software – straight line over 3 years

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. Impairment is tested annually by comparing the net assets of the underlying subsidiary to the carrying value of the investment, with any short fall provided for during the period.

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 $1,443,486 (2008: $1,478,769).

Notes to the Company financial statements continued

For the year ended 31 December 2009

3. Tangible assets

	Office equipment US$
Cost	
As at 1 January 2009	54,567
Additions	25,679
As at 31 December 2009	**80,246**
Accumulated depreciation	
As at 1 January 2009	(8,595)
Charge for year	(9,607)
As at 31 December 2009	**(18,202)**
Net book value	
As at 31 December 2008	45,972
As at 31 December 2009	**62,044**

4. Investments

	Year ended 31 December 2009 US$	Year ended 31 December 2008 US$
Shares in subsidiary undertakings		
Anglo Asian Operations Limited	**1,325,007**	1,325,007

5. List of subsidiaries

Anglo Asian Mining PLC is the parent and ultimate parent of the Group.

Details of the Company's subsidiaries at 31 December 2009 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 2009 US$	Year ended 31 December 2008 (Restated) US$
Amounts falling due within one year		
Prepayments	**16,963**	85,877
HMRC	**3,858**	1,001
Amounts owed by subsidiary undertakings	**26,119,461**	24,451,102
Other debtors	**46,623**	—
	26,186,905	24,537,980

7. Cash

Cash and cash equivalents comprise cash held by the Company 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.

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 2009 US$	Year ended 31 December 2008 US$
Amounts falling due within one year		
Trade creditors	**179,684**	99,514
Loan from Director	**998,663**	—
HMRC	**5,165**	—
Accruals	**1,856,368**	1,340,680
	3,039,880	1,440,194

On 7 August 2009, the Company entered in to an agreement with Mr Reza Vaziri, a Director of the Company, for an unsecured loan of US$1.0 million. This loan was for the purpose of addressing the working capital constraints caused by the initial delay in ramp-up of production at Gedabek and to provide additional capital as the Company scale up production towards full capacity. The loan has an interest rate of 8% per annum and is to be paid back from 20% of net gold sales with the latest date for the outstanding balance to be paid in full being 7 February 2010. As at 31 December 2009, the outstanding principal amount of the loan was $998,663. Subsequent to the year end date, the repayment terms of the loan have been revised. See note 13 on subsequent events.

9. Deferred taxation

	Year ended 31 December 2009 US$	Year ended 31 December 2008 US$
The elements of unrecognised deferred taxation are as follows:		
Tax losses	**1,086,293**	1,204,961
Unrecognised deferred tax asset	**1,086,293**	1,204,961

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

	2009		2008	
	Number	**£**	Number	£
Authorised				
Ordinary shares of 1 pence each	**600,000,000**	**6,000,000**	600,000,000	6,000,000
	Number	**US$**	Number	US$
Allotted and fully paid				
At the beginning of the year	**102,721,921**	**1,851,516**	99,621,880	1,792,015
At the end of the year	**108,945,949**	**1,934,363**	102,721,921	1,851,516

Notes to the Company financial statements continued

For the year ended 31 December 2009

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 2009	1,851,516	30,911,013	(7,914,512)	24,848,017
Loss for the year	—	—	(1,443,486)	(1,443,486)
Share issues	82,847	1,028,372	—	1,111,219
Share-based payment	—	—	52,073	52,073
As at 31 December 2009	**1,934,363**	**31,939,385**	**(9,305,925)**	**24,567,823**

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 27 to the consolidated financial statements.

13. Subsequent events

On 31 March 2010, the Company agreed with Mr Reza Vaziri, a Director of the Company, to reschedule the repayment of the outstanding principal amount of the loan from Mr Vaziri to 30 November 2010.

14. Auditors' remuneration

The Company paid $15,000 (2008: $22,210) to its auditors in respect of the audit of the financial statements of the Company. Fees paid to Ernst & Young LLP and Deloitte LLP and their associates for non-audit services to the Company itself are not disclosed in the individual accounts of Anglo Asian Mining PLC because consolidated financial statements are prepared which are required to disclose such fees on a consolidated basis.

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