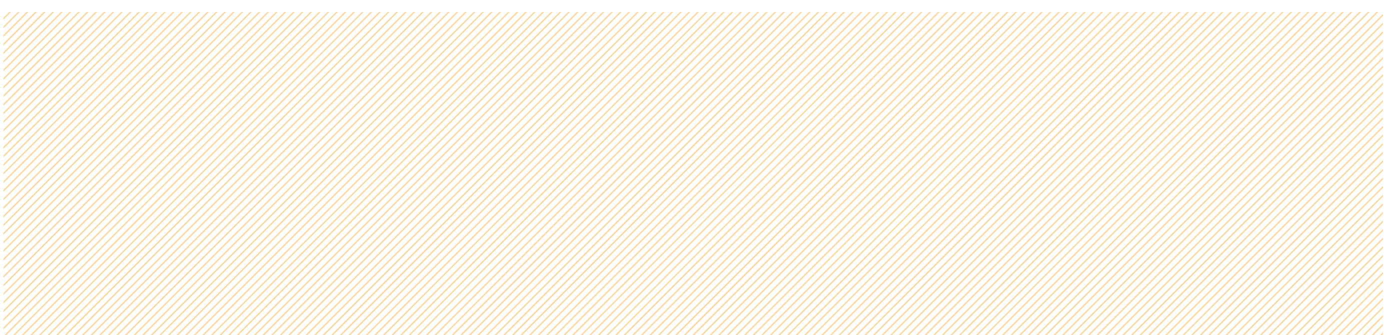
ANGLO ASIAN MINING PLC

Profitable gold/copper producer focused in Azerbaijan

Anglo Asian Mining PLC
Annual report and accounts 2010



ANGLO ASIAN MINING PLC IS A CAUCASIAN AND CENTRAL ASIAN FOCUSED GOLD/COPPER 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 gold mine in modern times.

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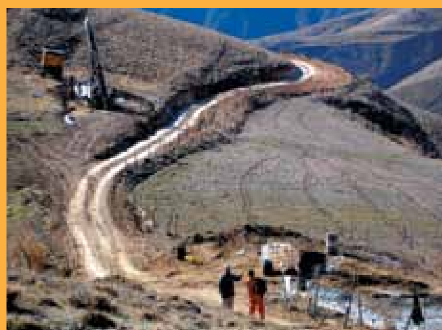
THE REPUBLIC OF AZERBAIJAN IS A DEMOCRATIC COUNTRY SITUATED IN SOUTH WESTERN ASIA

HIGHLIGHTS

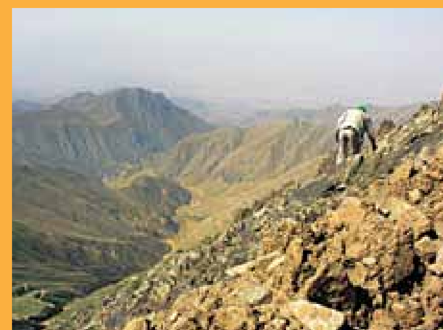
- **Profit before tax of US$19.8 million** (2009: US$11.7 million loss) on revenue of US$72.0 million (2009: US$10.3 million)
- **Gross profit of US$31.4 million** (2009: US$1.9 million)
- **Operating cash flow before movement in working capital of US$47.0 million** (2009: US$ 2.7 million)
- **Gold production at Gedabek for year ended 31 December 2010 totalled 67,267 ounces** – exceeded 60,000 ounce gold forecast
- **Produced gold at an average cash operating cost of US$358 per ounce** including the Government of Azerbaijan's share
- **Company gold sales of 57,398 ounces** completed at an average of US$1,241 per ounce
- **Strengthening of processing operations at Gedabek** – 821,176 tonnes of dry ore transferred during 2010 onto the leach pad with an average gold content of 4.33 g/t
- Copper and silver production from SART operations – **182.5 tonnes of copper and 1,460 kg of silver** (46,940 ounces)
- **JORC Resource upgrade at Gedabek – 791,000 ounces of gold**, 49,300 tonnes of copper and 7,597,000 ounces of silver for all categories
- **Post period end, Gedabek has continued to perform well with gold production** for Q1 2011 totalling 14,028 ounces
- **Focused on developing 1,962 sq km gold/copper exploration portfolio** with the aim of replicating success at Gedabek and developing additional mining operations
- **Notice of Discovery in 300 sq km Gosha Contract Area** – further exploration planned with a view to confirming a small gold deposit with production potential
- **Interest-bearing loans and borrowings reduced from US$43.0 million** at 31 December 2009 to US$30.6 million at 31 December 2010 – target to have repaid International Bank of Azerbaijan loans by Q4 2011/Q1 2012
- **Net debt, being interest-bearing loans and borrowings less cash and cash equivalents, reduced from US$42.2 million at 31 December 2009 to US$25.5 million at 31 December 2010**

GEDABEK

GOSHA



ORDUBAD



CHAIRMAN'S STATEMENT

Geological logging

"Improving Gedabek's processing capabilities remains a key focus for Anglo Asian as we seek to hit our full year production target of a minimum of 60,000 oz of gold and 525 tonnes of copper."

Khosrow Zamani
Non-executive Chairman

IN SUMMARY

- Gedabek gold production for FY 2010 totalled 67,267 ounces – exceeded 60,000 ounce gold forecast
- Gold sales achieved for FY 2010 totalled 57,398 ounces completed at an average of US$1,241 per ounce
- Low cost producer – average cash operating cost of US$358 per oz of gold including the Government of Azerbaijan's share
- SART plant has performed in line with management expectations – total copper concentrate produced FY 2010 contained 182.5 tonnes copper, 1,460 kg (46,940 oz) of silver and 25.9 kg (833 oz) of gold

It gives me great pleasure to report on the progress your Company has made during 2010 as we gained momentum in terms of establishing Anglo Asian as a successful gold producer in Central Asia, boosting gold and copper production at our Gedabek mine in Azerbaijan ('Gedabek') and increasing profitability. Additionally, we have implemented defined exploration and development programmes across our 1,962 sq km portfolio of prospective copper and gold assets in Azerbaijan to delineate and upgrade the Company's resource base, which currently stands at 791,000 ounces ('oz') of gold 49,300 tonnes of copper and 7,597,000 oz of silver for all categories.

For the year ended 31 December 2010 we exceeded our 60,000 oz gold production forecast at Gedabek, producing 67,267 oz with an average cash operating cost of US$358 per oz of gold including the Government of Azerbaijan's share and US$412 per oz of gold net of the Government of Azerbaijan's share. This positions Gedabek as a low cost producer and, in conjunction with gold sales of 57,398 oz completed at an average of US$1,241 per oz for the year, has seen us deliver a healthy profit before tax of US$19.8 million (2009: US$11.7 million loss) and operating cash flow before movement in working capital of US$47.0 million (2009: US$2.7 million) in the period.

In terms of 2010 copper production at Gedabek, our Sulphidisation, Acidification, Recycling and Thickening ('SART') plant, which recovers copper in the form of a precipitated copper sulphide concentrate containing silver with commercial value, commenced production in February 2010 and was fully operational by September 2010. Interestingly, application of this process commercially on such a scale has never previously been achieved and, although there were a few initial teething problems, we are pleased that the SART plant has performed in line with management expectations. The total copper concentrate produced in 2010 contained 182.5 tonnes of copper, 1,460 kg (46,940 oz) of silver and 25.9 kg (833 oz) of gold.

Post period end, Gedabek has continued to perform well with gold production for Q1 2011 totalling 14,028 oz, which is a 3% increase on production for the comparable quarter in 2010. Copper and silver recovery from our SART operations has significantly improved, seeing us produce 104 tonnes of copper and 762 kg (24,499 oz) of silver in the quarter. During 2010 a sales protocol was agreed with government partners for the sale of 400 wet tonnes of copper concentrate. This sale will be substantially completed in May 2011 and will positively impact profits for the first half of the 2011 financial year. As with the sales of gold bullion under the Production Sharing Agreement ('PSA'), 12.75% of revenue received from the copper concentrate goes directly to the account of the Government of Azerbaijan. We are also currently in discussions with government partners regarding a further sales protocol for copper concentrate and look forward to updating the market on this development in due course.

Gedabek is an open pit, heap leach operation. During 2010, the volume of dry ore being transferred onto the leach pad improved each quarter. For the year ended 31 December 2010 we transferred 821,176 tonnes of dry ore with an average gold content of 4.33 g/t.

Improving Gedabek's processing capabilities remains a key focus for Anglo Asian as we seek to hit our full year production target of a minimum of 60,000 oz of gold and 525 tonnes of copper. At present, the mine life stands at six years with target production in excess of 300,000 oz of gold, however we are confident that we can expand this and the resource through exploration over the whole 300 sq km Contract Area at Gedabek.

With this in mind, we implemented a defined strategy in 2010 to reassess the data employed in making the JORC compliant mineral resources statement provided by SRK consulting ('SRK') in 2006. As a result in October 2010 we were delighted to announce a resource upgrade to 791,000 oz of gold, 49,300 tonnes of copper and 7,597,000 oz of silver at a cut-off grade of 0.3 g/t gold for all categories, which after taking account of ore already mined as of 7 June 2010, gave a total gold uplift across the Measured and Indicated resource categories of 31%.

A further resource development programme, which aims to increase the confidence of the resource estimate and to increase the resource base, is now underway at the Gedabek Contract Area and includes a 17,500m drilling programme. We look forward to updating shareholders on developments and exploration results in due course.

Unlocking the intrinsic value of the rest of our portfolio in Azerbaijan is also high on our agenda. Therefore in 2010 we commenced further exploration programmes at our two grassroots projects, Gosha and Ordubad, which are 300 sq km and 462 sq km respectively. Post period end in February 2011 we submitted a Notice of Discovery at Gosha. Further exploration is now planned with a view to confirming a small gold deposit with production potential. At out Ordubad Contract Area, we have successfully extended the licence for a further year through to April 2012.

As shareholders will be aware, we have a strong relationship with the Government of Azerbaijan and we continue to be very grateful for its support. In addition, we continue to work closely with the International Bank of Azerbaijan ('IBA'), which is majority owned by the Government of Azerbaijan and has supported us through our mine development stage with loan financing, which peaked at US$43.7 million in March 2010. With our increasing profitability we are delighted to announce that during the period we have significantly reduced this amount to US$29.6 million at 31 December 2010 and subsequently to US$21.0 million as of 25 May 2011. We are confident that by the end of 2011, with production revenues in line with management expectations, we will have paid off all, or nearly all, of our debt to the IBA.

As highlighted in previous reports, Anglo Asian has a PSA in place with the Government of Azerbaijan based on the established Azeri oil industry. Up until the time Anglo Asian has recovered all its carried forward, unrecovered costs, the Government of Azerbaijan effectively takes 12.75% of commercial products of each mine, with the Company taking 87.25%. We expect to continue retaining 87.25% of the commercial products until at least the end of 2011.

In 2010, Anglo Asian generated revenues of US$72.0 million (2009: US$10.3 million) 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 57,398 oz of gold and 35,922 oz of silver (2009: 9,656 oz of gold and 2,919 oz of silver) at an average price of US$1,241 and US$22 respectively (2009: US$1,057 and US$17).

The Group incurred mining cost of sales of US$40.6 million (2009: US$8.4 million) and therefore reported a gross profit of US$31.4 million for 2010 (2009: US$1.9 million).

The Group incurred administration expenses of US$5.1 million (2009: US$4.0 million) which, along with finance costs for the year of US$6.3 million (2009: US$3.3 million), resulted in a profit before tax for the year of US$19.8 million (2009: loss of US$11.7 million). The price of gold steadily increased throughout 2010 and in to 2011 and has been a key factor in the Company's financial performance.

As with any business, a strong, stable team can be directly linked to its success and we believe Anglo Asian is no different. I am delighted with our Board and highly skilled management team, which are working well together and delivering solid results for the Company. Our whole staff now consists of approximately 427 personnel, from mining engineers to geologists and project managers, and notably during the year we appointed a new geological consultant.

As ever, maintaining good health, safety, social and environmental standards is very important to us. We have now established a Health, Safety, Environment and Technology Committee ('HSET') at Board level, under the chairmanship of Professor John Monhemius, one of our Non-executive Directors. This committee has the responsibility to oversee all aspects of the HSET performance of the Company and to make recommendations to the Board. Post period we also appointed an experienced Health, Safety and Environment manager as a full-time member of our corporate management team.

Ore crushing plant

In regard to our social responsibilities, we are committed to assisting Gedabek's local community. During 2010, we launched our second beekeeping project. The programme consisted of a ten week beekeeping course in Gedabek, the first in Azerbaijan, where 28 students graduated. The Company provided short-term loans to 20 graduates who bought 65 beehives to start their beekeeping business. The Company's internet café was open to the public during the year and over 350 people visited the centre. The centre offers short computer courses to the public and 280 people attended the courses. In addition, the Company undertook to construct a 2 km road in the Arikhdam village, near Gedabek, and repaired a connecting bridge.

Looking ahead, we anticipate that gold and copper production from Gedabek will be steady and combined with a continued buoyant gold price should deliver increased revenues for the forthcoming year. In addition, I believe the development of our extensive exploration portfolio to fulfil our mid to long-term strategy of building multiple gold mines will gain traction during the year and add further value for shareholders.

Finally, I would like to thank the employees, my fellow Directors, advisors and shareholders for their continued support and I look forward to updating shareholders regularly on the progress of what is now a highly profitable, cash-generative, producing gold company.

Khosrow Zamani
Non-executive Chairman
25 May 2011

CHIEF EXECUTIVE'S REVIEW

Ore agglomeration

"We implemented a number of initiatives in July and August 2009 to expand production and improve efficiencies, which ideally positioned us for gold production growth at the beginning of 2010."

Reza Vaziri
President and Chief Executive

IN SUMMARY

- Focused on developing 1,962 sq km gold/copper exploration portfolio with the aim of replicating success at Gedabek and developing additional mining operations
- JORC Resource upgrade at Gedabek – 791,000 ounces of gold, 49,300 tonnes of copper and 7,597,000 ounces of silver for all categories
- Defined exploration strategy aimed at increasing Gedabek's resource, proving reserves and extending Gedabek's life of mine in progress
- Notice of Discovery in 300 sq km Gosha Contract – further exploration planned with a view to confirming a small gold deposit with production potential

Mining operations

During the course of 2010, we were primarily focused on the efficiency of our flagship Gedabek mine, ensuring that gold production continued to increase quarter on quarter and that we realised our internal management target of 60,000 oz of gold for the first full year of production to 31 December 2010.

As shareholders are aware, we began construction of the Gedabek open pit mine in 2008 and the mine poured its first gold and silver in May 2009. As is often the case with the start-up of a new operation, we experienced a few technical problems, however we implemented a number of initiatives in July and August 2009 to rectify these problems, expand production and improve efficiencies, which ideally positioned us for gold production growth at the beginning of 2010.

As discussed in our Chairman's statement, gold production exceeded management's expectation for the period. For the 12 months to 31 December 2010, Gedabek produced 67,267 oz of gold, of which 57,398 oz was sold and completed at an average of US$1,241 per oz for the year. It should be noted that Anglo Asian is currently entitled to 87.25% of metal production. Also, there will always be short-term timing differences between gold production for the account of Anglo Asian and sale of that production.

The summary table 1 of gold production and prices highlights the quarter-on-quarter gold production at Gedabek over 2010 and post-period.

Gedabek is a low-cost producer relative to its peers. For the year to 31 December 2010 we produced gold at a cash cost of US$412 per oz, excluding the Government of Azerbaijan's share, and at a cash cost of US$358 per oz including the Government of Azerbaijan's share.

In terms of processing, Table 2 on page 5 summarises levels of dry ore that have been transferred to the leach pad on a quarterly basis from 1 January 2010 to 31 December 2010 and post-period to 31 March 2011. 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.

Extreme winter weather conditions during the first quarter of 2011 at Gedabek have resulted in the leaching process, which extracts gold from the crushed ore, becoming sluggish. This has affected gold production for Q1 2011 resulting in production of 14,028 oz, below that of Q4 2010. However it represents a 3%

Table 1: Production at Gedabek

Quarter ended	Gold produced (including Government of Azerbaijan's share) (oz)	Sales of gold excluding Government of Azerbaijan's share) (oz)	Weighted average gold sale price (US$)
31 March 2010	13,661	11,034	1,102
30 June 2010	14,836	13,326	1,197
30 September 2010	19,215	15,618	1,229
31 December 2010	19,555	17,420	1,371
Total for 2010	**67,267**	**57,398**	**1,241**
31 March 2011	14,028	11,269	1,385

increase on the comparable period for 2010, which saw gold production of 13,660 oz. The other significant factor in reduced production was that gold grade in Q1 2011 was 3.32 g/t compared to 4.79 g/t in the equivalent period in 2010.

Copper and silver production from our SART operations has performed well with the total copper concentrate produced from February 2010 to 31 December 2010 containing 183 tonnes of copper, 1,460 kg (46,940 oz) of silver and 25.9 kg (833 oz) of gold. The SART plant was fully operational in September 2010. See Table 3 for SART copper, silver and gold production.

Copper and silver recovery from our SART operations improved during the first quarter of the current year seeing us produce copper concentrate that contained 104 tonnes of copper and 762 kg (24,499 oz) of silver.

The plant's designed capacity is calculated to produce 1,800 tonnes of copper concentrate per year with copper recoveries projected to be 50–70% and silver recoveries of 4,000 to 6,000 g/t. Further optimisation work is planned to reach the designed capacity.

Maintaining high health, safety, social and environmental standards is very important to us at Anglo Asian. We have approximately 427 personnel working for the Company including a local management team, Azeri mining and earthworks contractors and experienced operations personnel from surrounding countries, of which 367 are based at Gedabek, where there is a permanent mine camp for employees. I am pleased to report that there have been no major or serious accidents during 2010 and to date in 2011.

Best environmental practice is also a top priority for the Company and accordingly Gedabek has been constructed to the highest environmental standards. In terms of power and water, we use 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.

Exploration

Exploration of our portfolio of gold and copper assets in Azerbaijan remains central to our growth strategy as we develop our future production profile to establish ourselves as a leading gold producer in Central Asia.

Our portfolio, which spans 1,062 sq km, consists of the Gedabek Contract Area where we currently have gold/copper mining operations and the grassroots Gosha and Ordubad Contract Areas. All three Contract Areas run across the Tethyan Tectonic Belt, one of the world's significant copper and gold bearing areas. Additionally, we hope to develop the 900 sq km prospects in three additional Contract Areas located in the region in Azerbaijan occupied by Armenia when the political situation permits.

Conveyors feeding stacker

Table 2: Dry ore transferred to leach pad at Gedabek

Quarter ended	Dry ore transferred to the leach pad (tonnes)	Average grade (g/t)
31 March 2010	167,968	4.79
30 June 2010	189,000	3.80
30 September 2010	224,000	4.30
31 December 2010	240,208	4.32
Total for year ended 31 December 2010	**821,176**	**4.33**
31 March 2011	208,000	3.32

Table 3: SART – copper, silver and gold production (in the form of copper concentrate)

	Copper concentrate produced (dry tonnes)	Copper recovered (tonnes)	Silver produced (kg)	Gold produced (kg)
Four months ended 30 June 2010	120	54	432	8.2
Quarter ended 30 September 2010	110	81	648	10.9
Quarter ended 31 December 2010	86	48	380	6.8
Total for year ended 31 December 2010	**316**	**183**	**1,460**	**25.9**
Quarter ended 31 March 2010	175	104	762	2.3

CHIEF EXECUTIVE'S REVIEW CONTINUED

Ore stacking on heap leach pad

Exploration continued

Gedabek

We have implemented a defined exploration strategy aimed at increasing Gedabek's resource, proving reserves and in turn extending Gedabek's life of mine which currently stands at six years with a target production in excess of 300,000 oz of gold.

Whilst developing the Gedabek mine in 2008–2009 we discovered the orebody had higher grades than originally forecast by SRK and reconnaissance work also indicated that there were extensions of the orebody 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 of gold. Out of this amount, 212,000 tonnes with an average grade of 3.0 g/t of gold was not included in the original reserve estimations undertaken by SRK in 2006. In order to help clarify the situation, we enlisted the help of SGS Mineral Services and a re-modelling and geometallurgical study was commissioned to create a more accurate ore body model of the Gedabek deposit.

In April 2010 initial results were received for Phase 1 of the Realistic Mineral Resources Model (a non JORC compliant report) which indicated significant increases in the overall quantities of gold, silver and copper from the original 2006 SRK resource estimate of 702,000 oz of gold, 37,500 tonnes of copper and 6,100,000 oz of silver.

On 7 June 2010, further structural geological information including topographic surveys and geological mapping and data became available and were included to calculate a JORC compliant resource report at Gedabek. In October 2010 we were delighted to announce a resource upgrade of 791,000 oz of gold, 49,300 tonnes of copper and 7,597,000 oz of silver at cut-off grade of 0.3 g/t gold for all categories, which, after taking account of ore already mined as of 7 June 2010, which was excluded from the resource report, gave a total gold uplift across the Measured and Indicated resource categories of 31.2%.

Phase 2 of the resource development programme is now underway with a further 6,000m diamond drilling programme completed at Gedabek within the boundaries of the existing pit, which aims to increase the confidence of the revised JORC compliant resource and will add valuable close spaced information for mine planning purposes. Results for the 6,000m of diamond drilling are due imminently and we will update the market accordingly on this development.

A further 17,500m of drilling is now underway concentrating on underground exploration, areas within close proximity to the mine, such as the Choplan discovery and the Maarif target area, as well as other targets within the Gedabek Contract Area. The work programme has been divided as follows:

- 7,500m to be drilled in an area that borders the existing mine and will concentrate on an area underground at a depth of 200 to 350m;
- 3,000m of drilling at Cholpan, a highly prospective area in close proximity to the existing mine; and
- 7,000m of drilling at Maarif and other areas in the Gedabek Contract Area – in 2009 3,000m of drilling was undertaken at Maarif which yielded encouraging results.

Gosha

The 300 sq km Gosha Contract Area is situated 50 km north-west of Gedabek and contains three prospects: Gosha, Itkirlan and Munduglu. After active exploration in 2010, which included 3,000m of drilling and 300m of adit and sampling work, we were pleased to announce in February 2011 that we had

submitted a Notice of Discovery for Gosha. Following the issue of the Notice of Discovery, the Company has six months to submit a Development and Production Programme to the Government of Azerbaijan.

Gosha has more than 6 km of exploration adits from the Soviet era and our 2010 work programme highlighted that one of its mineralisation zones, which was designated during Soviet times as 'Zone 13', has the potential to become a small narrow vein gold mining operation. In addition to this zone, there are several other vein type mineralisation zones.

We are now planning to extend the adits at Gosha and implement a 1,500m underground diamond drilling programme to further explore the economic potential of this discovery. Ultimately, we aim to define new resources at Gosha and replicate our success at Gedabek with the development of an underground mining operation.

Ordubad

The 462 sq km Ordubad Contract Area in the Nakhchivan region contains numerous targets including Shakardara, Piyazbashi, Misdag, Agyurt, Shalala, Daste Bashi and Diakchay, which are all located within a 5 km radius.

A preliminary remote sensing study of the Ordubad Contract Area was conducted in 2010 as well as adit cleaning and re-sampling of adits in two regions, Piyazbashi and Agyurt. Trenching and sampling was also undertaken in the Daste Bashi region. The Company believes that the Piyazbashi, Agyurt and Daste Bashi prospects warrant further exploration. The Company recently announced that the licence has been extended for another year through to April 2012.

Outlook

Looking ahead, we anticipate gold and copper production from Gedabek to continue to perform solidly, resulting in strong revenue generation when combined with a strong gold price, which will enable us to rapidly pay off our loans. Indeed, we are on target to hit our goal of being a debt-free, profitable gold producer by 2012 with a portfolio of highly prospective advanced projects that could also be developed into new revenue streams. I therefore believe that we are in a strong position to generate value for shareholders during the coming year and look forward to updating shareholders regularly on our progress.

Reza Vaziri
President and Chief Executive
25 May 2011

Ore crusher and agglomerator

ADR elution column

FINANCE REVIEW

Solution storage pond preparation

"I am pleased to report that in 2010 Anglo Asian generated revenues of US$72,012,543 (2009: US$10,256,851) as a result of gold and silver sales from the Gedabek mine."

Andrew Herbert
Chief Financial Officer

IN SUMMARY

- Profit before tax of US$19.8 million (2009: US$11.7 million loss)
- Revenue of US$72.0 million (2009: US$10.3 million)
- Gross profit of US$31.4 million (2009: US$1.9 million)
- Operating cash flow before movement in working capital of US$47.0 million (2009: US$2.7 million)
- Interest-bearing loans and borrowings reduced from US$43.0 million at 31 December 2009 to US$30.6 million at 31 December 2010
- Target to have repaid International Bank of Azerbaijan loans by Q4 2011/Q1 2012

Introduction

I am pleased to report that in 2010 Anglo Asian generated revenues of US$72,012,543 (2009: US$10,256,851) 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 57,398 oz of gold and 35,922 oz of silver (2009: 9,656 oz of gold and 2,919 oz of silver) at an average price of US$1,241 and US$22 respectively (2009: US$1,057 and US$17).

The Group incurred mining cost of sales of US$40,639,430 (2009: US$8,403,928) and therefore reported a gross profit of US$31,373,113 for 2010 (2009: US$1,852,923).

During the year there was no impairment charge (2009: US$5,773,180).

The Group incurred administration expenses of US$5,126,926 (2009: US$4,027,521), which, along with finance costs for the year of US$6,314,522 (2009: US$3,262,986), resulted in a profit before tax for the year of US$19,798,377 (2009: loss of US$11,723,910). The finance costs for the year comprised interest on the credit facilities and loans net of capitalised interest, interest on letters of credit and accretion expenses on the rehabilitation provision.

During the early part of 2010, the Group continued to draw on its facilities with IBA, which peaked at US$43.7 million in March 2010. Since, then the Group has repaid its outstanding loans to IBA, which have an all inclusive interest rate of 15% per annum, as far as cash flows have allowed. There is no penalty for early repayment of these loans. Loans outstanding with IBA at 31 December 2010 amounted to US$29.6 million. Since the end of the year, the Group has repaid a further US$8.6 million of IBA loans, leaving a balance of US$21.0 million at 25 May 2011.

Table 4 below shows the schedule of repayments for the IBA loan.

On 20 December 2010, Anglo Asian has rescheduled the repayment of its outstanding US$998,663 loan provided by the Company's CEO Reza Vaziri on 7 August 2009. This will allow Anglo Asian to repay loans with a higher interest rate as a priority during a period of strong operational performance for the Company. As announced on 12 April 2010, it was agreed that repayment of the loan would be made in one instalment on 30 November 2010. Under the new rescheduled payment plan, the loan will be rolled over on a month by month basis with a 30 day notice period. The loan carries an all-inclusive annual interest rate of 8% per annum. In addition, the Group repaid its advance of US$158,634 from Reza Vaziri.

Table 4: Repayment schedule for IBA loans

	2011 US$	2012 US$	2013 US$	**Total US$**
Repayment schedule for IBA loans	9,630,007	18,176,000	1,821,000	**29,627,007**

During 2010, the Group repaid outstanding loans from Pasha Bank and Bank Standard JSC so that the remaining unpaid balance of loans from both banks was US$nil (2009: US$450,000 and US$410,529 respectively).

Remaining debt at 31 December 2010 stands at US$30,625,670 (2009: US$42,983,336) comprising US$29,627,007 due to IBA and US$998,663 due to Reza Vaziri.

The Group held cash balances at 31 December 2010 of US$5,110,851 (2009: US$809,548) and inventories at cost of US$16,354,968 (2009: US$10,276,024).

Net assets of the Group were US$58,018,453 (2009: US$42,579,635).

During the year exploration and evaluation expenditure of US$3,449,470 (2009: US$1,685,142) was incurred and capitalised during the year.

The Group did not pay any corporation tax during the year as it utilised its brought forward tax losses to set off against taxable profit made in 2010. At 31 December 2010, R.V. Investment Group Services LLC, the Group entity party to the PSA, carried forward cumulative tax losses of US$13,394,919 (2009: US$36,998,945). The Group expects that, given current gold prices and a production forecast for 2011 of a minimum of 60,000 oz of gold, these tax losses will be fully utilised during 2011 and that the Company will start to pay corporation tax of 32% in 2011. The Company has booked a deferred tax liability of US$4,560,934 (2009: US$nil).

PSA

Under the terms of the PSA in place with the Government of Azerbaijan, the Company and the Government of Azerbaijan share commercial products of each mine. Until the time Anglo Asian has recovered all its carried forward, unrecovered costs, the Government of Azerbaijan effectively takes 12.75% of commercial products of each mine, with the Company taking 87.25% (being 75% for capital and operating costs plus 49% of remaining 25% balance). The Company expects that it will not have recovered all its costs by the end of 2011 and that the ratio of sharing commercial products for Gedabek mine of 87.25% to Anglo Asian and 12.75% to the Government of Azerbaijan will continue throughout the year.

Once all prior year costs are recovered, the Company can continue with cost recovery of up to 75% of the value of commercial products, before the remaining product revenues are shared between the Company and the Government of Azerbaijan in a 49% to 51% ratio. The Company can recover the following costs:

- all direct operating expenses of Gedabek mine;
- all exploration expenses incurred on the Gedabek Contract Area;
- all capital expenditure incurred on the Gedabek mine;
- an allocation of corporate overheads. Currently, overheads are apportioned to Gedabek according to the ratio of direct capital and operating expenditure at Gedabek Contract Area compared with direct capital and operational expenditure at Gosha and Ordubad Contract Areas; and
- an imputed interest rate of USD LIBOR + 4% per annum on any unrecovered costs.

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 ending 30 June 2012 and satisfying themselves that the Group will have sufficient funds on hand to realise its assets and meet its obligations as and when they fall due.

Depreciation

As described in note 3 of the annual report, the accumulated mine development costs within producing mines are depreciated 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. An amount of 323,000 ounces of recoverable gold has been used to determine depreciation on accumulated mine development costs. It is expected that as a result of the drilling and other exploration work that has been carried out at Gedabek in 2010, and the further work that is planned to be carried out in 2011, the Group will revise its estimate of recoverable gold before the end of 2011, which will have a corresponding impact on the depreciation charges going forward.

Commodity price risk

The Group's revenues are 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 2010 but will review this requirement on a periodic basis. Interest rates on current loans are fixed and there is no floating rate debt.

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
25 May 2011

BOARD OF DIRECTORS

Mr Khosrow Zamani
Non-executive Chairman, Age 68

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 US$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 some banks and financial services and private equity funds active in CIS, central Asia and Caucasia.

Mr Reza Vaziri
President and Chief Executive, Age 58

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, Zbigniew Brezinski, Governor John Sununu and Henry Kissinger. Reza resides in Baku, London and Washington, DC.

Mr Richard Round FCCA
Non-executive Director, Age 53

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 71

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 68
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 of 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 of 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. He is a former 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 consolidated financial statements of Anglo Asian Mining PLC for the year ended 31 December 2010.

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

The Group's net income after taxation for the year ended 31 December 2010 amounted to US$15,237,443 (2009: loss of US$11,723,910).

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 2010 and 31 December 2009 were:

Directors	**31 December 2010 Number of shares**	31 December 2009 Number of shares
Khosrow Zamani	**243,184**	243,184
Reza Vaziri	**32,796,830**	32,796,830
Richard Round	**213,958**	213,958
John Sununu	**10,674,540**	10,070,352
John Monhemius	**55,556**	55,556

A total of 1,451,358 (2009: 6,224,028) shares were issued during the year to the Directors, employees and creditors in lieu of salaries, fees and monies owed bringing the total number of ordinary shares with voting rights to 110,397,307 at 31 December 2010 (2009: 108,945,949).

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 2010	Granted during the year	Exercised during the year	Forfeited in the year	Lapsed in the year	**As at 31 December 2010**
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**
John Monhemius	11.5	14 August 2019	150,000	—	—	—	—	**150,000**
Others								
	97.0	11 August 2015	247,925	—	—	—	—	**247,925**
	8.9	1 August 2018	200,000	—	—	—	—	**200,000**
	4.8	4 December 2018	950,000	—	(700,000)	—	—	**250,000**
			4,226,684	—	(700,000)	—	—	**3,526,684**

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

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.

DIRECTORS' REPORT CONTINUED

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 2012 and satisfying themselves that the Group will have sufficient funds on hand to realise its assets and meet its obligations as and when they fall due.

The Group's business activities, together with the factors likely to affect its future development, performance and position, can be found in the Chairman's Statement on pages 2 and 3 and the Chief Executive's Review on pages 4 to 7. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 8 and 9. In addition, note 24 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group is currently operating in favourable market conditions for its main product with the gold spot price achieving record nominal high prices in 2011 and believes that the spot price of gold will remain high compared to historical prices. The Group is able to produce gold at a comparatively low unit cost, ensuring a large margin is achieved on production. Loans have been paid ahead of their scheduled repayment date in 2010 and in 2011 to date. The Group foresees that it will continue to repay loans ahead of the scheduled repayment date. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully under the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the annual report and accounts.

Charitable and political contributions

There were no charitable or political contributions made during the year (2009: US$nil).

Substantial shareholdings

The Company has been informed that on 13 May 2011 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	29.53
Khagani Bashirov	18,087,758	16.29
John Sununu	10,674,540	9.61
Limelight Industrial Developments Limited	4,038,600	3.64

The number of shares in issue at this date was 111,047,307.

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 27 (2009: 139).

Financial instruments

Financial instruments are disclosed in note 24 to the consolidated financial statements.

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 24 June 2011 at which this report and consolidated 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 2010. 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' responsibilities

The Directors are responsible for preparing the Directors' Report and the consolidated 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. 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.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Andrew Herbert
Company Secretary
25 May 2011

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 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 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 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.

Health, Safety, Environment and Technology Committee

The Board has a Health, Safety, Environment and Technology Committee which comprises John Monhemius and Reza Vaziri and meets as required. The Committee's primary function is to assist the Board of Directors of the Company in fulfilling its oversight responsibilities in the following areas:

- the health, safety, environmental and technological issues relating to the Company;
- the Company's compliance with corporate policies that provide processes, procedures and standards to follow in accomplishing the Company's goals and objectives relating to health, safety and environmental issues, to ensure that the Company's operations and work practices comply as far as is practicable with the best international standards; and
- the management of risk related to health, safety, environmental and technological issues.

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 AUDITOR'S 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 2010 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit 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 2010.

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 May 2011

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 2010

	Notes	**Year ended 31 December 2010 US$**	Year ended 31 December 2009 US$
Revenue	5	**72,012,543**	10,256,851
Cost of sales		**(40,639,430)**	(8,403,928)
Gross profit		**31,373,113**	1,852,923
Other income	6	**719,446**	—
Administrative expenses		**(5,126,926)**	(4,027,521)
Write down of capitalised intangible assets	10	**—**	(5,773,180)
Other operating expense	6	**(852,734)**	(513,954)
Operating profit/(loss)	7	**26,112,899**	(8,461,732)
Finance income	5	**—**	808
Finance costs	11	**(6,314,522)**	(3,262,986)
Profit/(loss) before tax		**19,798,377**	(11,723,910)
Income tax expense	12	**(4,560,934)**	—
Profit/(loss) for the period attributable to the equity holders of the parent		**15,237,443**	(11,723,910)
Earning/(loss) per share for the period attributable to the equity holders of the parent			
Basic earnings/(loss) per share (cent per share)	13	**13.88**	(11.28)
Diluted earnings/(loss) per share (cents per share)	13	**13.37**	(11.28)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Year ended 31 December 2010 US$	Year ended 31 December 2009 US$
Profit/(loss) for the year	**15,237,443**	(11,723,910)
Other comprehensive income	**—**	—
Total comprehensive income/(loss) for the year	**15,237,443**	(11,723,910)
Attributable to the equity holders of the parent	**15,237,443**	(11,723,910)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2010

	Notes	**As at 31 December 2010 US$**	As at 31 December 2009 US$
Non-current assets			
Intangible assets	14	**34,469,441**	38,745,095
Property, plant and equipment	15	**43,290,670**	48,298,659
Non-current prepayments	16	**284,461**	79,200
		78,044,572	87,122,954
Current assets			
Trade receivables and other assets	18	**4,322,094**	3,836,685
Inventories	19	**16,354,968**	10,276,024
Cash and cash equivalents	20	**5,110,851**	809,548
		25,787,913	14,922,257
Total assets		**103,832,485**	102,045,211
Current liabilities			
Trade and other payables	21	**(9,263,458)**	(14,951,262)
Interest-bearing loans and borrowings	22	**(10,641,996)**	(19,097,540)
		(19,905,454)	(34,048,802)
Net current assets/liabilities		**5,882,459**	(19,126,545)
Non-current liabilities			
Provision for rehabilitation	23	**(1,363,970)**	(1,530,978)
Interest-bearing loans and borrowings	22	**(19,983,674)**	(23,885,796)
Deferred tax liability	12	**(4,560,934)**	—
		(25,908,578)	(25,416,774)
Total liabilities		**(45,814,032)**	(59,465,576)
Net assets		**58,018,453**	42,579,635
Equity			
Share capital	25	**1,957,424**	1,934,363
Share premium account		**32,101,124**	31,939,385
Share-based payment reserve		**638,377**	621,802
Merger reserve		**46,206,390**	46,206,390
Accumulated loss		**(22,884,862)**	(38,122,305)
Total equity		**58,018,453**	42,579,635

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 25 May 2011. They were signed on its behalf by:

Reza Vaziri
Chief Executive

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	**Year ended 31 December 2010 US$**	Year ended 31 December 2009 (reclassified) US$
Net cash provided by/(used in) operating activities	26	**34,367,253**	(5,631,752)
Investing activities			
Expenditure on property, plant and equipment and mine development		**(8,471,353)**	(15,733,989)
Investment in exploration and evaluation assets (including other intangible assets)		**(3,477,014)**	(1,402,839)
Interest received		**—**	808
Net cash used in investing activities		**(11,948,367)**	(17,136,020)
Financing activities			
Shares issued in lieu of cash and for share options exercised		**184,800**	1,111,220
Proceeds from borrowings		**3,099,100**	26,898,983
Repayments of borrowings		**(15,477,371)**	—
Interest paid		**(5,924,112)**	(5,171,605)
Net cash (used in)/provided by financing activities		**(18,117,583)**	22,838,598
Net increase in cash and cash equivalents		**4,301,303**	70,826
Cash and cash equivalents at beginning of year	20	**809,548**	738,722
Cash and cash equivalents at end of year	20	**5,110,851**	809,548

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Share capital US$	Share premium US$	Share-based payment reserve US$	Merger reserve US$	Accumulated loss US$	Total equity US$
At 1 January 2009		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)
Total comprehensive income		—	—	—	—	(11,723,910)	(11,723,910)
Shares issued	25	82,847	1,028,372	—	—	—	1,111,219
Share-based payment charge for period	27	—	—	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
Profit for the year		—	—	—	—	15,237,443	15,237,443
Total comprehensive income		—	—	—	—	15,237,443	15,237,443
Shares issued	25	23,061	161,739	—	—	—	184,800
Share-based payment charge for period	27	—	—	16,575	—	—	16,575
At 31 December 2010		**1,957,424**	**32,101,124**	**638,377**	**46,206,390**	**(22,884,862)**	**58,018,453**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. 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 2012 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.

2. General information
Anglo Asian Mining PLC is a public limited company incorporated in the UK under the Companies Act 2006. 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 25 May 2011. These consolidated financial statements, for the year ended 31 December 2010 and 31 December 2009, are prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU. 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.

Reclassifications
Foreign exchange loss of US$223,280 was reclassified from 'Administrative expenses' to 'Other operating expenses' in comparative Consolidated Income Statement to conform to presentation of the 2010 Consolidated Income Statement.

Shares issued in exchange for salaries and fees of US$1,111,220 were reclassified from operating activities into financing activities in the Comparative Consolidated Cash Flow Statement to conform with presentation of the 2010 Consolidated Cash Flow Statement.

Changes in accounting policies, new standards and interpretations not applied
The following new and amended IFRS and IFRIC interpretations are mandatory as of 1 January 2010 unless otherwise stated and the impact is described below.

Amendment to IFRS 2 'Company Cash-settled Share-based Payment Arrangements'
The amendment clarifies the accounting for Group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the Group pays for those goods or services. This amendment did not have any impact on the financial position or performance of the Group.

IFRS 3 'Business Combinations' (Revised)
The revised standard increases the number of transactions to which it must be applied including business combinations of mutual entities and combinations without consideration. IFRS 3 (revised) introduces significant changes in the accounting for business combinations such as valuation of non-controlling interest, business combination achieved in stages, the initial recognition and subsequent measurement of a contingent consideration and the accounting for transaction costs. This revised standard did not have any impact on the Group as there were no business combinations during the year.

IAS 27 'Consolidated and Separate Financial Statements' (Amended)
The amended standard 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 and these transactions will no longer give rise to goodwill or gains and losses. The standard also specifies the accounting when control is lost and any retained interest is remeasured to fair value with gains or losses recognised in profit or loss. This amendment did not have any impact on the financial position or performance of the Group.

3. Significant accounting policies continued

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

Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items'

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment did not have any impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 12 'Service Concession Arrangements' (endorsed by the EU later than its effective date)

It addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and the rights they receive in service concession arrangements. As the Group does not have any service concession arrangements, the interpretation has no impact.

IFRIC 17 'Distribution of Non-cash Assets to Owners'

The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The adoption of the interpretation did not have an impact on the Group.

IFRIC 18 'Transfers of Assets from Customers'

The interpretation applies to entities that receive from customers items of property, plant and equipment or cash for the acquisition of construction of such items. These assets are then used to connect customers to a network or to provide ongoing access to a supply of goods or services. As the Group does not enter into such transactions this interpretation has no impact on the Company.

Improvements to IFRS (issued 2009)

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

Standards issued but not yet effective (and in some cases had not yet adopted by the EU) up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group does not expect the impact of such changes on the consolidated financial statements to be material.

IAS 24 'Related Party Disclosures' (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance.

IAS 32 'Financial Instruments: Presentation – Classification of Rights Issues' (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 'Financial Instruments: Classification and Measurement'

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 'Prepayments of a Minimum Funding Requirement' (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the consolidated financial statements of the Group.

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2010

3. Significant accounting policies continued

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

Improvements to IFRS (issued in May 2010)

The IASB issued Improvements to IFRS, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below are considered to have a reasonable possible impact on the Group:

- IFRS 3 'Business Combinations';
- IFRS 7 'Financial Instruments: Disclosures';
- IAS 1 'Presentation of Financial Statements';
- IAS 27 'Consolidated and Separate Financial Statements'; and
- IFRIC 13 'Customer Loyalty Programmes'.

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

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, 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 Consolidated Income Statement in the period when the new information becomes available.

Inventories (note 19)

Net realisable value tests are performed at least annually and represent the estimated future sales price of the product based on prevailing spot metals prices at the reporting date, less estimated costs to complete production and bring the product to sale.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data, and the estimated recovery percentage based on the expected processing method.

Stockpile tonnages are verified by periodic surveys.

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 Consolidated Balance Sheet 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 Consolidated 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 Consolidated Income Statement. Also, rehabilitation obligations that arose as a result of the production phase of a mine should be expensed as incurred.

Recovery of deferred tax assets (note 12)

Judgement is required in determining whether deferred tax assets are recognised on the Consolidated Balance Sheet. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

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 and assay results are known or can be reasonably estimated. Assay results determine content of metal in doré (gold and silver), the price of which is determined based on market quotations of each metal. Silver in doré bullions is treated as a by-product and is produced together with gold, which is the intended product and is recognised in sales revenue.

Interest revenue

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2010

3. Significant accounting policies continued
Leasing
Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

The Group has no significant finance leases.

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

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

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the Consolidated Income Statement for the period.

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 Consolidated 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 temporary 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 Group recognises neither the deferred tax asset regarding the temporary difference on the rehabilitation liability, nor the corresponding deferred tax liability regarding the temporary difference on the rehabilitation asset.

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 Consolidated 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 Consolidated 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 Consolidated Income Statement in the period they are incurred.

3. Significant accounting policies continued

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'.

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.

'Exploration and evaluation costs' incurred after commercial production start date in relation to evaluation of potential mineral reserves and resources that is expected to result in increase of reserves are capitalised as 'Evaluation and exploration assets' within 'intangible assets'. Once there is evidence that reserves are increased, such costs are tested for impairment and transferred to 'Producing mines'.

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

Development expenditure is net of proceeds from all but the incidental sale of ore extracted during the development phase.

Upon completion of mine construction, the assets initially charged to Assets in course of construction are transferred into 'Plant and equipment' or 'Producing mines'. Items of 'Plant and equipment' and 'Producing mines' are stated at cost, less accumulated depreciation and accumulated impairment losses.

During production period expenditures directly attributable to the construction of each individual asset are capitalised as 'Assets' in course of construction up to the period when asset is ready to be put into operation. When asset is put into operation it is transferred to 'Plant and equipment' or 'Producing mines'. Additional capitalised costs performed subsequent to the date of commencement of operation of asset are charged directly to 'Plant and equipment' or 'Producing mine' i.e. where asset itself was transferred.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2010

3. Significant accounting policies continued
Property, plant and equipment and mine properties continued
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 – eight years
- Plant and equipment – eight years
- Motor vehicles – four years
- Office equipment – four years
- Leasehold improvements – eight 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 Consolidated 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.

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 consolidated 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 Consolidated 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 or 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 indefinite life intangibles are not reversed for subsequent increases in its recoverable amount.

3. Significant accounting policies continued

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 Consolidated 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 consolidated 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 as well as 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.

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, 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 consolidated 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2010

3. Significant accounting policies continued

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 and 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 and metal in concentrate 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.

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 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 does not segment the business when evaluating its performance.

5. Revenue

The Group's revenue consists of bullion sold to a third-party customer. Revenue from sale of gold and silver bullion was US$71,236,994 and US$775,549 respectively (2009: US$10,207,870 and US$48,981).

6. Other operating expenses and income

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.

Other operating income relates to the income generated as a result of unwinding of a provision during 2010 (2009: US$nil).

7. Operating profit/(loss)

	Notes	**Year ended 31 December 2010 US$**	Year ended 31 December 2009 US$
Operating profit/(loss) is stated after charging:			
Depreciation on property, plant and equipment – owned	15	**13,112,368**	3,825,655
Amortisation of mining rights and other intangible assets	14	**7,752,668**	1,310,505
Employee benefits and expenses	9	**6,503,761**	3,465,499
Impairment of mining rights	10,14	**—**	5,000,000
Impairment of evaluation and exploration expenditure	10,14	**—**	773,180
Net foreign currency exchange loss		**421,506**	223,280
Loss on disposal of fixed assets	15	**—**	167,025
Inventory expensed during the year		**10,976,653**	4,404,476
The analysis of auditor's remuneration is as follows:			
Fees payable to the Group's auditors for the audit of the Group's annual accounts		**102,331**	66,700
The audit of the Group's subsidiaries pursuant to legislation		**108,000**	78,300
Total audit fees		**210,331**	145,000
Tax services		**—**	—
Total non-audit services		**—**	13,000

The audit fees for the parent company were US$24,000 (2009: US$15,000).

8. Remuneration of Directors

Year ended 31 December 2010	**Consultancy US$**	**Fees US$**	**Benefits US$**	**Total US$**
Richard Round	**—**	**40,547**	**—**	**40,547**
John Sununu	**—**	**56,766**	**—**	**56,766**
Khosrow Zamani	**—**	**100,402**	**—**	**100,402**
Reza Vaziri	**268,767**	**36,428**	**21,000**	**326,195**
John Monhemius	**21,764**	**36,685**	**—**	**58,449**
Total	**290,531**	**270,828**	**21,000**	**582,359**

Directors' fees and consultancy fees for 2010 included above were paid in cash.

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

Directors' fees and consultancy fees for 2009 amounting to US$111,802 included above were paid in shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010 Number	Year ended 31 December 2009 Number
Management and administration	**49**	36
Processing and exploration	**87**	74
Mine operations	**291**	195
Total	**427**	305

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2010 US$	Year ended 31 December 2009 US$
Wages and salaries	**7,244,118**	4,719,945
Share-based payments	**16,575**	52,073
Social security costs	**1,426,543**	1,074,572
	8,687,236	5,846,590
Less: salary costs capitalised as exploration, evaluation development, fixed asset and inventory expenditure	**(2,183,475)**	(2,381,091)
Total employee costs	**6,503,761**	3,465,499

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate:

	Year ended 31 December 2010 US$	Year ended 31 December 2009 US$
Short-term employee benefits	**582,359**	486,247
Share-based payment	**16,575**	25,890
	598,934	512,137

10. Write down of capitalised intangible assets

No impairment charges have been taken during the year. An analysis of impairment charges against capitalised intangible assets is provided below:

	Year ended 31 December 2010 US$	Year ended 31 December 2009 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 2009, the Group concluded that it is unlikely to realise value at Sharkadara, Misdag, Shalala and Diakchay mining properties within the Ordubad contract area. The Group therefore took 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 US$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 2010 US$	Year ended 31 December 2009 US$
Bank interest	**6,021,266**	4,649,094
Finance charges on letters of credit and accretion expenses	**375,099**	245,781
Interest capitalised during period	**(81,843)**	(1,631,889)
Total finance cost	**6,314,522**	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 and CEO 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 (2009: 15%), interest on the loan from Reza Vaziri is at 8% per annum (2009: 8%), interest on the Bank Standard JSC credit line is at 19% (2009: 19%) and interest on the loan from Pasha Bank is at 17% (2009: 17%). The credit facilities were provided for the purpose of constructing and developing the Gedabek gold mine, additions in working capital 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 32% (as stipulated in the PSA for RVIG in Azerbaijan, the entity that contributes most significant portion of profit before tax in Group consolidated financial statements) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Group did not recognise deferred income tax in 2009 due to significant uncertainties around the availability of sufficient future profit streams to allow realisation of deferred tax assets. Since those issues no longer exist for tax losses of RVIG and management is reasonably certain regarding the availability of future profits, deferred income taxes are recognised and fully disclosed in these financial statements arising in RVIG.

The major components of the income tax expenses for the year ended December 31 are:

	Year ended 31 December 2010 US$	Year ended 31 December 2009 US$
Current income tax:		
Current income tax charge	**—**	—
Deferred tax:		
Relating to origination and reversal of temporary differences	**4,560,934**	—
Income tax expense reported in the Consolidated Income Statement	**4,560,934**	—

Deferred income tax at December 31 relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	As at 31 December 2010 US$	As at 31 December 2009 US$	Year ended 31 December 2010 US$	Year ended 31 December 2009 US$
Deferred income tax liability:				
Property, plant and equipment	**(5,834,562)**	—	**(5,834,562)**	—
Non-current prepayments	**(91,028)**	—	**(91,028)**	—
Trade and other receivables	**(402,692)**	—	**(402,692)**	—
Inventories	**(4,504,103)**	—	**(4,504,103)**	—
Deferred tax liability	**(10,832,385)**	—		
Deferred income tax asset:				
Trade and other payables	**1,985,077**	—	**1,985,077**	—
Carry forward losses	**4,286,374**	—	**4,286,374**	—
	6,271,451	—		
Deferred income tax expense			**(4,560,934)**	—
Net deferred tax liability	**(4,560,934)**	—		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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12. Taxation continued

	Year ended 31 December 2010 US$	Year ended 31 December 2009 US$
Profit/(loss) before tax	**19,798,377**	(11,723,910)
Theoretical tax charge/benefit at statutory rate of 32%	**6,430,180**	(3,751,651)
Effects of different tax rates for certain Group entities (28%)	**28,859**	57,752
Tax effect of items which are not deductible or assessable for taxation purposes:		
– losses in jurisdictions that are exempt from taxation	**4,482**	3,116
– non-deductible expenses	**2,381,812**	1,756,560
Unrecognised deferred tax assets	**1,360,508**	5,550,209
Benefit from unrecognised deferred tax assets of previous years	**(5,550,209)**	(3,615,985)
Income tax expense for the year	**4,560,934**	—

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 assets and liabilities have been offset for deferred taxes recognized for RVIG since there is a legally enforceable right to set off current tax assets against current tax liabilities and 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 in Azerbaijan.

At the balance sheet date, the Group has unused tax losses of US$20,053,271 (2009: US$43,413,647) available for offset against future profits. No deferred tax asset has been recognised in respect of jurisdictions other than Azerbaijan due to the unpredictability of future profit streams in 2009. Unused tax losses in Azerbaijan may be carried forward indefinitely.

13. Profit/(loss) per share

The basic earnings per share of 13.88 cents (2009: loss per share of 11.28 cents) has been based on a weighted average number of shares in issue of 109,765,126 (2009: 103,977,437) and a net income of US$15,237,443 (2009: loss of US$11,723,910).

Dilutive earnings per share are 13.37 cents for 2010 (2009: the as with basic for 2009 because the only outstanding share options were anti-dilutive as the Group made a loss in 2009). Dilutive earnings per share have been based on 113,950,668, the weighted average number of shares determined based on the dilutive effects of 3,426,684 share options exercisable as of 31 December 2010 and 100,000 share options not vested by 31 December 2010.

14. Intangible assets

Exploration and evaluation assets

	Gedabek US$	Gosha US$	Ordubad US$	Total US$
Cost				
As at 1 January 2009	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
Additions	1,285,318	1,753,680	410,472	3,449,470
As at 31 December 2010	**2,032,275**	**2,524,719**	**1,708,569**	**6,265,563**

14. Intangible assets continued

Mining rights and other intangible assets

	Mining rights US$	Other intangible assets US$	Total US$
Cost			
As at 1 January 2009	41,925,262	298,120	42,223,382
Additions	—	16,125	16,125
As at 31 December 2009	41,925,262	314,245	42,239,507
Additions	—	27,544	27,544
As at 31 December 2010	**41,925,262**	**341,789**	**42,267,051**
Accumulated depreciation and impairment			
As at 1 January 2009	—	—	—
Charge for year	(1,293,360)	(17,145)	(1,310,505)
Provision for impairment	(5,000,000)	—	(5,000,000)
As at 31 December 2009	(6,293,360)	(17,145)	(6,310,505)
Charge for year	(7,682,138)	(70,530)	(7,752,668)
As at 31 December 2010	**(13,975,498)**	**(87,675)**	**(14,063,173)**
Carrying amount			
As at 31 December 2009	35,631,902	297,100	35,929,002
As at 31 December 2010	**27,949,764**	**254,114**	**28,203,878**

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 2009	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
Capitalisation of interest	—	—	—	—	—	—	81,843	81,843
Additions	—	818,692	2,685,583	122,207	608,563	11,738	4,019,310	8,266,093
Transfer to producing mines	—	—	6,398,124	—	—	—	(6,398,124)	—
Decrease in provision for rehabilitation	—	—	(243,557)	—	—	—	—	(243,557)
As at 31 December 2010	**302,757**	**6,842,503**	**48,254,378**	**555,145**	**1,851,032**	**450,095**	**2,945,705**	**61,201,615**
Accumulated depreciation and impairment*								
As at 1 January 2009	(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)
Charge for year	(37,845)	(915,420)	(11,692,141)	(116,270)	(295,078)	(55,614)	—	(13,112,368)
As at 31 December 2010	**(190,447)**	**(2,035,022)**	**(14,258,275)**	**(317,103)**	**(803,349)**	**(306,749)**	**—**	**(17,910,945)**
Carrying amount								
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
As at 31 December 2010	**112,310**	**4,807,481**	**33,996,103**	**238,042**	**1,047,682**	**143,346**	**2,945,705**	**43,290,670**

* An amount of 323,000 ounces of recoverable gold has been used to determine depreciation on accumulated mine development costs. It is expected that as a result of the drilling and other exploration work that has been carried out at Gedabek in 2010 and the further work that is planned to be carried out in 2011, the Group will revise its estimate of recoverable gold before the end of 2011.

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.

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FOR THE YEAR ENDED 31 DECEMBER 2010

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 5 in the Company's financial statements.

18. Trade receivables and other assets

	As at 31 December 2010 US$	As at 31 December 2009 US$
Gold held on behalf of the Government of Azerbaijan	**1,533,403**	1,589,009
VAT refund due	**1,457,609**	1,026,609
Trade receivables	**240,664**	804,750
Prepayments	**235,445**	279,167
Advances	**845,858**	89,649
Other receivables	**9,115**	47,501
	4,322,094	3,836,685

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

The VAT refund due at 31 December 2010 and 2009 relates to VAT paid on purchases.

The Group trade receivable relates to its bullion sales. The entire trade receivable amount is with the Group's one customer, its refiner, MKS Finance SA.

The gold bullion 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 2010 US$	As at 31 December 2009 US$
At cost		
Finished goods – bullion	**833,314**	143,113
Finished goods – metal in concentrate	**1,370,286**	—
Metal in circuit	**11,114,620**	6,887,210
Ore stockpiles	**409,995**	1,769,583
Spare parts and consumables	**2,626,753**	1,476,118
	16,354,968	10,276,024

The Group commenced production of metal in concentrate in early 2010. No sales of metal in concentrate took place in 2010 and all produced volume of metal in concentrate was recognized as finished goods inventory balance as of year end.

20. Cash and cash equivalents
Cash and cash equivalents comprise cash held by the Group within financial institutions and are available immediately. The carrying amount of these assets approximates their fair value.

21. Trade and other payables

	As at 31 December 2010 US$	As at 31 December 2009 US$
Trade creditors	**2,634,393**	8,690,623
Gold held on behalf of the Government of Azerbaijan	**1,533,403**	1,589,009
Accruals and other payables	**5,095,662**	4,671,630
	9,263,458	14,951,262

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 27 (2009: 139). Accruals and other payables mainly consist of accruals made for accrued but not paid salaries, bonuses, related payroll taxes and social contributions, as well as services provided but not billed to the Group by the end of reported period. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Letters of credit totalling US$1,885,794 (2009: US$3,161,581) were negotiated with several European banks and guaranteed by the International Bank of Azerbaijan at 31 December 2010 to finance working capital additions (fixed assets and working capital additions in 2009) currently due within trade creditors.

22. Interest-bearing loans and borrowings

	As at 31 December 2010 US$	As at 31 December 2009 US$
Loans from IBA	**29,627,007**	40,969,133
Loan from Bank Standard JSC	**—**	410,529
Loan from Pasha Bank	**—**	450,000
Loan from Reza Vaziri	**998,663**	995,040
Advance from Reza Vaziri – non-interest bearing	**—**	158,634
Total interest-bearing loans and borrowings	**30,625,670**	42,983,336
Loans repayable in less than one year	**10,641,996**	19,097,540
Loans repayable in more than one year	**19,983,674**	23,885,796

The Group drew down an additional US$2,703,866 of loans from its existing facilities with International Bank of Azerbaijan in order to finance additions in working capital in early 2010. Repayments totalling US$14,032,667 were made to IBA during 2010, US$5,365,995 of which represents the early repayment of amounts due in 2011. Originally scheduled repayments due in 2011 were US$15,009,328, of which US$9,643,333 remains outstanding at 31 December 2010 after allowing for the US$5,365,995 early repayment during the year.

On 7 August 2009, the Group 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. On 12 April 2010, it was agreed that repayment of the loan would be made in one instalment on 30 November 2010. On 20 December 2010, it was agreed that the loan would be rolled over on a month by month basis with a 30 day notice period from either party to the agreement. The loan carries an all inclusive annual interest rate of 8% per annum.

The Group also has obtained US$395,234 from its existing facilities with Bank Standard JSC. Total outstanding principal amounting US$805,763 was repaid during 2010. Interest payable on outstanding principal loan was 19% per annum.

Outstanding loan principal in amount of US$450,000 from Pasha Bank was fully repaid in 2010. Interest was payable at 17% per annum.

Subsequent repayments of loan outstanding from International Bank of Azerbaijan are shown in the disclosure of events after the balance sheet date (note 30).

As at 31 December 2010 the Group had undrawn facilities of US$227,000 (2009: US$3,520,342) after consideration of the letters of credit which are guaranteed by the International Bank of Azerbaijan.

23. Provision for rehabilitation

	2010 US$	2009 US$
Carrying amount as at 1 January	**1,530,978**	—
Additions/(disposals)	**87,145**	1,504,647
Accretion expense	**76,549**	26,331
Effect of change in discount rate	**(330,702)**	—
Carrying amount as at 31 December	**1,363,970**	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 (US$2,110,669 undiscounted liability for 2010 and US$2,005,000 undiscounted liability for 2009, discounted using a risk free rate of 5% for 2010 and 3.5% for 2009).

Expenditure on restoration and rehabilitation is expected to commence in 2018. 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 2010

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 2010 and 2009 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 2010 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 ongoing 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 2010 US$	As at 31 December 2009 US$
Interest-bearing loans and borrowings (note 22)	**30,625,670**	42,983,336
Trade and other payables (note 21)	**9,263,458**	14,951,262
Less cash and cash equivalents (note 20)	**(5,110,851)**	(809,548)
Net debt	**34,778,277**	57,125,050
Equity	**58,018,453**	42,579,635
Capital and net debt	**92,796,730**	99,704,685
Gearing ratio	**37%**	57%

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's cash and cash equivalents are not subject to 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 2010.

24. Financial instruments continued

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 2010

Fixed rate	**Within 1 year**	**More than 1 year**	**Total**
Borrowings	**10,641,996**	**19,983,674**	**30,625,670**
Letters of credit	**1,885,794**	**—**	**1,885,794**
Floating rate			
Letters of credit	**—**	**—**	**—**

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

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.

All borrowings have been made at fixed interest rates through the entirety of the repayment period.

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 2010

	On demand US$	**Less than 3 months US$**	**3 to 12 months US$**	**1 to 5 years US$**	**> 5 years US$**	**Total US$**
Interest-bearing loans and borrowings	**998,663**	**—**	**9,630,007**	**19,997,000**	**—**	**30,625,670**
Trade and other payables	**4,287,864**	**4,483,594**	**492,000**	**—**	**—**	**9,263,458**
Other liabilities	**—**	**—**	**—**	**—**	**1,363,970**	**1,363,970**
	5,286,527	**4,483,594**	**10,122,007**	**19,997,000**	**1,363,970**	**41,253,098**

Year ended 31 December 2009

	On demand US$	Less than 3 months US$	3 to 12 months US$	1 to 5 years US$	> 5 years US$	Total US$
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 2010

24. Financial instruments continued
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	
	2010 US$	2009 US$	**2010 US$**	2009 US$
UK Sterling	**102,726**	338,612	**9,647**	17,577
Azerbaijan Manats	**4,978,768**	4,280,846	**1,597,412**	1,240,239
Other	**41,278**	143,767	**39,473**	19,654

Foreign currency sensitivity analysis
The Group is mainly exposed to the currency of the United Kingdom (UK Sterling) and the currency of Azerbaijan (Azerbaijan Manats).

The following table details the Group's sensitivity to a 20% (2009: 20%) increase and decrease in the US Dollar against the relevant foreign currencies. 20% (2009: 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% (2009: 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% (2009: 20%) against the relevant currency. For a 20% (2009: 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	
	2010 US$	2009 US$	**2010 US$**	2009 US$
Profit	**15,513**	64,207	**563,559**	608,121

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 US$7,123,699 and a 10% increase in gold prices would result in an increase in profit of US$7,123,699. A 10% decrease in silver price would result in a reduction in profit of US$77,555 and a 10% increase in silver prices would result in an increase in profit of US$77,555.

25. Equity

	As at 31 December 2010 US$	As at 31 December 2009 US$
Authorised: 600,000,000 ordinary shares of 1 pence each	**6,000,000**	6,000,000
	US$	US$
Issued and fully paid: 110,397,307 ordinary shares of 1 pence each (2009: 108,945,949 ordinary shares of 1 pence each)	**1,957,424**	1,934,363

25. Equity continued

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 2009	102,721,921	1,851,516
Issued to Directors and employees 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
Issued to Directors and employees in lieu of salary, fees and expenses	684,691	10,868
Issued to a trade creditor in lieu of cash payment	66,667	1,004
Exercise of stock options	700,000	11,189
At 31 December 2010	**110,397,307**	**1,957,424**

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.

26. Notes to the cash flow statement

	Year ended 31 December 2010 US$	Year ended 31 December 2009 (reclassified) US$
Profit/(loss) before tax	**19,798,377**	(11,723,910)
Adjustments for:		
Finance income	**—**	(808)
Finance costs (note 11)	**6,314,522**	3,262,986
Depreciation of property, plant and equipment (note 15)	**13,112,368**	3,825,655
Amortisation of mining rights and other intangible assets (note 14)	**7,752,668**	1,310,505
Loss on disposal of property, plant and equipment (note 7)	**—**	167,025
Share-based payment expense (note 27)	**16,575**	52,073
Impairment of exploration and evaluation expenditure (note 14)	**—**	773,180
Impairment of mining rights (note 14)	**—**	5,000,000
Operating cash flows before movements in working capital	**46,994,510**	2,666,706
Increase in trade and other receivables	**(485,410)**	(2,362,624)
Increase in inventories	**(6,023,338)**	(10,276,024)
Increase/(decrease) in trade and other payables	**(6,118,509)**	4,340,190
Cash provided by/(used in) operations	**34,367,253**	(5,631,752)
Income taxes paid	**—**	—
Net cash provided by/(used in) operating activities	**34,367,253**	(5,631,752)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2010

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:

	2010		2009	
	Number of share options	**Weighted average exercise price Pence**	Number of share options	Weighted average exercise price Pence
Outstanding at beginning of year	**4,226,684**	**23**	4,610,152	23
Granted during the year	**—**	**—**	150,000	12
Lapsed during the year	**—**	**—**	—	—
Forfeited during the year	**—**	**—**	(183,468)	43
Exercised during the year	**(700,000)**	**5**	(350,000)	5
Outstanding at 31 December	**3,526,684**	**29**	4,226,684	23
Exercisable at 31 December	**3,426,684**	**29**	3,093,351	29

The options outstanding at 31 December 2010 had a weighted average exercise price of 29 pence (ranging from 4.75 pence to 97 pence) and a weighted average remaining contractual life of six years. No options were granted in 2010. 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 (US$28,242).

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.

Total share-based payment expense recognised by the Group
The Group recognised total expenses of US$16,575 and US$52,073 related to equity-settled share-based payment transactions in 2010 and 2009, respectively.

The cumulative amount recognised in equity relating to share-based payments at the balance sheet date was US$638,377 (2009: US$621,802).

28. Contingencies and commitments
The Group undertakes its mining operations in Azerbaijan 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'), a wholly owned subsidiary of the Company, with regards to the exploration and development programme, preparation and timely submission of reports to the Government of Azerbaijan, compliance with environmental and ecological requirements, etc. The Directors believe that RVIG is in compliance with the requirements of the PSA. Subsequent to the balance sheet date, the exploration period on Ordubad was extended by one year through April 2012, when the Group has to announce discovery or release the contract area to the Government of Azerbaijan (see note 30). The Group announced a discovery on Gosha subsequent to the balance sheet date (see note 30) and has six months from February 2011 to present the Government of Azerbaijan with the development programme. The mining licence on Gedabek expires in March 2022, with options to extend the licence by ten years conditional upon satisfaction by RVIG of certain requirements stipulated in the PSA.

RVIG is also 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 2010.

There were no capital commitments at 31 December 2010.

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 2010 and 2009, 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 US$91,613 (2009: US$91,598).

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

c) During the year US$268,767 (2009: US$244,285) was paid to Mr Reza Vaziri for consultancy services.

d) A non-interest bearing advance of US$158,634 from Mr Reza Vaziri was repaid.

e) During the year US$103,696 of interest was paid on the loan of US$998,663 from Mr Reza Vaziri including US$23,918 interest that was accrued in 2009.

f) An office in Baku with an indirect interest of Mr Reza Vaziri is pledged under the contract on credit line with Bank Standard JSC.

30. Events after the balance sheet date

The following subsequent events relate to the period from 31 December 2010 to the date of approval of the consolidated financial statements on 25 May 2011.

In January 2011 the Group issued 650,000 ordinary shares on exercise of options. The shares were issued based on the exercise price of the options which were all at 4.75 pence.

On 22 February 2011, the Group submitted a Notice of Discovery for gold on its Gosha Contract Area. According to the terms of the PSA, following the submission of the Notice of Discovery, the Group has six months to submit a Development and Production Programme to the Government of Azerbaijan for approval.

The Government of Azerbaijan has granted the Group a one year extension to continue exploration for precious and base metals on its 462 sq km Ordubad Contract Area. The exploration period relating to the Ordubad Contract Area will now continue until April 2012.

According to the terms of PSA the Group's subsidiary RVIG should submit profit tax return for provisional profit tax in first quarter of the year when it expects taxable profit. On 12 May 2011 RVIG made the first quarterly provisional profit tax payment of US$2.1 million, representing one-fourth of estimated 2011 profit tax payable at the end of each quarter.

Subsequent to the period end and up to 25 May 2011, the Company has repaid a further US$8.6 million of loans to IBA. The outstanding loan balance at 25 May 2011 is US$21.0 million.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ANGLO ASIAN MINING PLC

We have audited the parent company financial statements of for the year ended 31 December 2010 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010;
- 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Anglo Asian Mining PLC for the year ended 31 December 2010.

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 May 2011

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2010

	Notes	**2010 US$**	2009 US$
Non-current assets			
Tangible assets	3	**37,379**	62,044
Investments	4	**1,325,007**	1,325,007
		1,362,386	1,387,051
Current assets			
Debtors – amounts falling due within one year	6	**21,981,016**	26,186,905
Cash at bank and in hand	7	**3,134,465**	33,747
		25,115,481	26,220,652
Creditors: trade creditors and accruals	8	**(2,425,141)**	(3,039,880)
Net current assets		**22,690,340**	23,180,772
Net assets		**24,052,726**	24,567,823
Share capital and reserves			
Called up share capital	10,11	**1,957,424**	1,934,363
Share premium account	11	**32,101,124**	31,939,385
Accumulated loss	11	**(10,005,822)**	(9,305,925)
Capital employed		**24,052,726**	24,567,823

These financial statements were approved by the Board of Directors on 25 May 2011 and were signed on its behalf by:

Reza Vaziri
Chief Executive

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

1. Significant accounting policies and going concern

1a. Going concern

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 25 May 2011.

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.

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 four years
- Software – straight line over three 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 US$699,897 (2009: US$1,443,486).

3. Tangible assets

	Office equipment US$
Cost	
As at 1 January 2010	80,246
Additions	—
As at 31 December 2010	**80,246**
Accumulated depreciation	
As at 1 January 2010	(18,202)
Charge for year	(24,665)
As at 31 December 2010	**(42,867)**
Net book value	
As at 31 December 2009	62,044
As at 31 December 2010	**37,379**

4. Investments

	Year ended 31 December 2010 US$	Year ended 31 December 2009 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 2010 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 2010 US$	Year ended 31 December 2009 US$
Amounts falling due within one year		
Prepayments	**55,045**	16,963
HMRC	**3,602**	3,858
Amounts owed by subsidiary undertakings	**21,922,369**	26,119,461
Other debtors	**—**	46,623
	21,981,016	26,186,905

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2010

8. Creditors

	Year ended 31 December 2010 US$	Year ended 31 December 2009 US$
Amounts falling due within one year		
Trade creditors	**42,175**	179,684
Loan from Director	**998,663**	998,663
HMRC	**—**	5,165
Accruals	**1,384,303**	1,856,368
	2,425,141	3,039,880

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 scaled up production towards full capacity. On 12 April 2010, it was agreed that repayment of the loan would be made in one instalment on 30 November 2010. On 20 December 2010, it was agreed that the loan would be rolled over on a month by month basis with a 30 day notice period from either party to the agreement. The loan carries an all inclusive annual interest rate of 8% per annum.

9. Deferred taxation

	Year ended 31 December 2010 US$	Year ended 31 December 2009 US$
The elements of unrecognised deferred taxation are as follows:		
Tax losses	**1,075,589**	1,086,293
Unrecognised deferred tax asset	**1,075,589**	1,086,293

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

	2010		2009	
	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	**108,945,949**	**1,934,363**	102,721,921	1,851,516
At the end of the year	**110,397,307**	**1,957,424**	108,945,949	1,934,363

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 2010	1,934,363	31,939,385	(9,305,925)	24,567,823
Loss for the year	—	—	(716,472)	(716,472)
Share issue	23,061	161,739	—	184,800
Share-based payment	—	—	16,575	16,575
As at 31 December 2010	**1,957,424**	**32,101,124**	**(10,005,822)**	**24,052,726**

Shares issued during the year relate to those issued to Directors and creditors in lieu of cash payments and exercise of options.

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

The following subsequential events relate to the period from 31 December 2010 to the date of approval of the Company's financial statements on 25 May 2011.

In January 2011 the Company issued 650,000 ordinary shares on exercise of options. The shares were issued based on the exercise price of the options which were all at 4.75 pence.

14. Auditor's remuneration

The Company paid US$24,000 (2009: US$15,000) to its auditors in respect of the audit of the financial statements of the Company. Fees paid to Ernst & Young 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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