ANGLO ASIAN MINING PLC

Leading gold/copper/silver mining and production company in Azerbaijan

Anglo Asian Mining PLC

Annual report and accounts 2011

Anglo Asian Mining PLC is a Caucasian and Central Asian focused gold/copper/silver producer with a 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 producing Gedabek mine, the country's first gold mine in modern times.

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Highlights

Financial

- **Increased profit before tax of US$31.6 million** (2010: US$19.8 million) on revenue of US$83.8 million (2010: US$72.0 million)
- **Increased gross profit of US$43.0 million** (2010: US$31.4 million)
- **Increased operating cash flow before movement in working capital of US$55.8 million** (2010: US$47.0 million)
- **Gold sales of 49,304 ounces** (2010: 57,398 ounces) **completed at an average of US$1,573 per ounce** (2010: US$1,241 per ounce)
- **Gold produced at an average cash operating cost of US$448 per ounce** (2010: US$358 per ounce)
- **Reduced net debt to US$3.2 million at 31 December 2011** (2010: US$25.6 million)
- **Solid cash position as at 31 December 2011 of US$9.9 million** (2010: US$5.1 million)

Operational

- **Total gold dore production of 57,068 ounces** (2010: 67,267 ounces)
- **Silver dore production totalled 39,086 ounces** (2010: 43,356 ounces)
- **842,751 tonnes of dry ore transferred onto the leach pad with an average gold content of 3.29 g/t during FY 2011** (2010: 821,176 tonnes of dry ore with an average gold content of 4.33 g/t
- **Significant increase in total copper concentrate produced which exceeded forecast – 611 tonnes of copper, 134,240 ounces of silver and 200 ounces of gold** (2010: 182.5 tonnes of copper, 46,940 ounces of silver and 833 ounces of gold)
- **Post year end, Q1 2012 gold production totalled 9,925 ounces – targeted to produce circa 54,000 ounces for FY 2012**
- **Upgraded JORC resource by 50% at Gedabek post year end to over 1 million ounces of gold in the Measured and Indicated categories**
- **Focus on exploration upside potential at Gedabek: 24,567 metres of drilling planned to increase resource base – a JORC compliant ore reserve report is planned to be completed in Q2 2012**
- **Continuing to develop Gosha Contract Area into a profitable, high grade underground gold mine – development anticipated to commence H2 2013**
- **Notice of Discovery in 462 sq km Ordubad Contract Area – further exploration planned to advance project**

Profit before tax (million)

+60%

Year	Value
2011	US$31.6
2010	US$19.8

Gross profit (million)

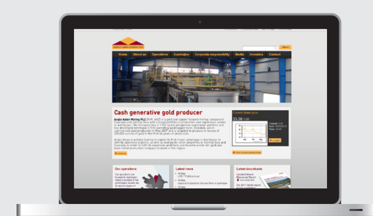
+37%

Year	Value
2011	US$43.0
2010	US$31.4

Operating cash flow before movement in working capital (million)

+19%

Year	Value
2011	US$55.8
2010	US$47.0



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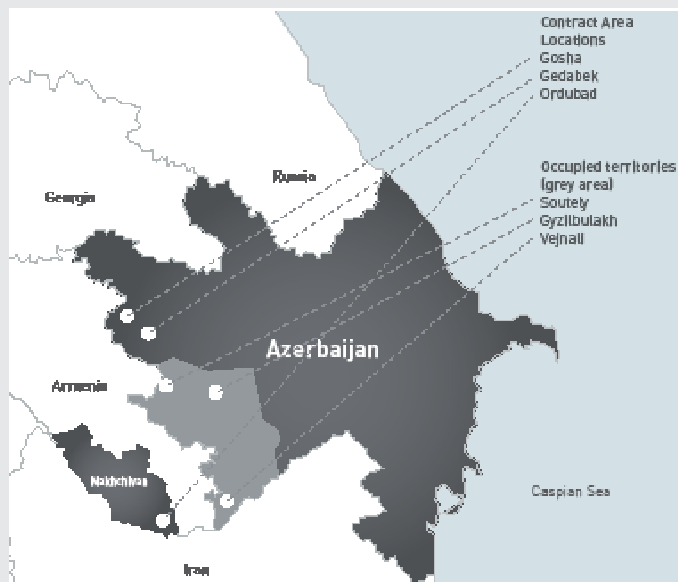
At a glance

Anglo Asian is a leading gold/copper/silver production company focussed in Azerbaijan. In line with its strategy to build a multiple mine operation and unlock intrinsic value for shareholders, it has implemented defined exploration and development programmes across its 1,962 sq km portfolio of assets in Azerbaijan.

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



Gedabek Contract Area

300 sq km
licence area

- Mining and exploration rights until March 2022
- Gedabek gold/copper/silver open pit mine
- US$52 million new agitation leading plant in development

57,068 ounces
of gold produced

611 tonnes
of copper concentrate produced

1,276,422 ounces
of gold resource

Gosha Contract Area

300 sq km
licence area

- In November 2011 we submitted a development and production programme which was approved in April 2012
- Plans to develop a small, profitable high grade underground gold mine in H2 2013

3,000 metres
of drilling

300 metres
of adit and sample work

Ordubad Contract Area

462 sq km
licence area

- Early stage exploration underway
- In April 2012, we submitted a Notice of Discovery

3,000 metres
re-sampling of adits

2,500 metres
of surface drilling

1,400 metres
of underground drilling

"I am delighted to report that the Company recorded a 60% increase in profit before tax of US$31.6 million (2010: US$19.8 million)."

Khosrow Zamani
Non-executive Chairman

In summary

- **In line with our strategy to build a multiple gold mine company and unlock our intrinsic value, we have implemented defined exploration and development programmes across our 1,962 sq km portfolio of prospective copper and gold assets in Azerbaijan**
- **In terms of gold and silver production from Gedabek's open pit, heap leach operation in FY 2011, the mine produced 57,068 ounces of gold at an average cash operating cost of US$448 per ounce**
- **We also enjoyed strong copper production at Gedabek from our Sulphidisation, Acidification, Recycling and Thickening ('SART') plant. In FY 2011 we exceeded our target of 525 tonnes of copper and produced 611 tonnes of copper, 134,240 ounces silver and 200 ounces of gold**

During the period under review Anglo Asian made excellent progress as a significant gold/copper/silver producer in Caucasia. With a solid production profile and low operating costs at our flagship Gedabek gold/copper/silver mine ('Gedabek') located in western Azerbaijan, as well as favourable commodity prices, we have enjoyed a period of increasing profitability for the year to 3104December 2011 ('FY 2011'). To this end, I am delighted to report that the Company recorded a 60% increase in profit before tax of US$31.6 million (2010: US$19.8 million) and a 37% increase in gross profit of US$43.0 million (2010: US$31.4 million).

In addition, in line with our strategy to build a multiple gold mine company and unlock our intrinsic value, we have implemented defined exploration and development programmes across our 1,962 sq km portfolio of prospective copper and gold assets in Azerbaijan. At Gedabek, we accomplished a milestone post-period end, announcing a 50% upgrade in our JORC resource to over 1 million ounces of gold in the Measured and Indicated classifications; at our 300 sq km Gosha Contract located 50 km away from Gedabek, we announced that the Government of Azerbaijan had approved a development and production programme and we are now continuing with exploration with a view to establishing our second mining project in Azerbaijan; and at our Ordubad Contract Area we announced a Notice of Discovery in April 2012.

In terms of gold and silver production from Gedabek's open pit, heap leach operation in FY 2011, the mine produced 57,068 ounces of gold at an average cash operating cost of US$448 per ounce. This positions Gedabek as a low cost producer. Additionally, the Company produced 39,086 ounces of silver. During the year we sold 49,304 ounces of gold at an average price of US$1,573 per ounce and 34,593 ounces of silver at an average price of US$35 per ounce. The difference between gold sold and gold produced is for two reasons. Firstly, the Government of Azerbaijan takes title to 12.75% of all produced metals and secondly, there is usually a timing difference between gold production and gold sales.

We also enjoyed strong copper production at Gedabek from our Sulphidisation, Acidification, Recycling and Thickening ('SART') plant. In FY 2011 we exceeded our target of 525 tonnes of copper and produced 611 tonnes of copper, 134,240 ounces silver and 200 ounces of gold. Total sales of copper concentrate of US$5.0 million were recorded in FY 2011 (2010: US$ nil). The Company's copper concentrate stockpiles currently total 743 tonnes copper, 200 ounces gold and 162,000 ounces of silver. Anglo Asian is in detailed discussions with various parties regarding finding a long-term sales partner and will update on this progress in due course.

Production was restricted to 9,925 ounces of gold post period end for Q1 2012, due to an unusually harsh winter. However, we still expect that the reduced level of production for Q1 2012 will be compensated for during the course of the year and that our internal target of 54,000 ounces of gold for 2012 will be achieved. Silver production from our heap leach operation remained on track totalling 7,670 ounces for the quarter. Copper, silver and gold production from our SART operations totalled 148 tonnes of copper concentrate, 34,666 ounces of silver and 27 ounces of gold for the first quarter.

To ensure the long-term success of Gedabek as a producing entity and obtain the best return for shareholders, we are looking to improve gold recovery rates and in turn to extend the life of mine. In May 2012, following a pre-feasibility study carried out by Arcadis Chile, the Company announced that it intends to construct an agitation leaching plant at

Gedabek. The plant will have the capacity to treat 100 tph of ore and has an expected capital cost of US$52 million including construction of the tailings dam and all related infrastructure. The Company is in the process of seeking approval from the Government of Azerbaijan for construction of the agitation leaching plant.

Gedabek is an open pit mining operation, which currently utilises a conventional heap leach process and a resin adsorption recovery plant. The heap leach process required less capital than the proposed agitation leaching plant to establish. However, heap leaching has limitations with regards to the size of ore being leached (-25mm), which results in gold recoveries of circa 70% with leaching cycles extending up to typically a year depending on the ore mineralogy. In comparison, agitation leaching of milled ore can deliver higher recoveries with the immediate production of gold.

The agitation leaching plant will process high grade ore and additional resources that are not suitable for Gedabek's current heap leaching processing operation, together with spent ore from the leach heaps to further improve total gold recoveries. Agitation leaching recovery rates have been initially estimated at 85% for oxide material and 69% for sulphide material although the Company is carrying out further tests to see if these recovery rates can be improved. In May 2012 the International Bank of Azerbaijan ('IBA') provided a US$7.5 million loan at an annual interest rate of 12% as part of the finance required for this project. The Company is in advanced discussions regarding additional debt funding and will update shareholders in due course.

As I mentioned briefly, in April 2012, we were delighted to announce a resource upgrade to 48,138,979 tonnes at 0.825 g/t gold for 1,276,422 ounces of gold in the Measured, Indicated and Inferred categories (a 61% increase from the previous JORC resource estimate dated October 2010); 0.197 % copper for 94,890 tonnes (a 93% increase); and 6.66 g/t silver for 10,305,653 ounces (a 36% increase) at a cut-off grade of 0.3 g/t gold. Recent drilling completed since the resource estimate indicates the significant potential to continue upgrading and increasing the size of the Gedabek deposit. Consequently, we are planning to conduct a further 24,567 metre drilling programme and complete a JORC compliant ore reserves estimate in Q2 2012.

On the corporate front, we continue to work closely with the Government of Azerbaijan. We are grateful for the level of support it gives us as we continue to develop Gedabek, the first gold mine in Azerbaijan in modern times, and to advance our other Contract Areas, Gosha and Ordubad, with the vision of commissioning future mining operations and building a mid-tier gold and base metal mining company in the country.

In terms of financing, we have a strong relationship with the IBA, which is majority owned by the Government of Azerbaijan. With our increasing profitability in FY 2011 we significantly reduced our debt (which peaked at US$43.7 million in March 2010 following Gedabek's mine development in 2008–2009) to US$13.1 million as at 31 December 2011 (2010: US$30.6 million). Net debt, being interest-bearing loans and borrowings less cash and cash equivalents, reduced to US$3.2 million at 31 December 2011 (2010: US$25.5 million) and cash in the bank stood at US$9.9 million (2010: US$5.1 million). In addition, during 2011, the Company repaid its US$1.0 million loan from the Company's CEO Reza Vaziri bringing the outstanding loan balance to US$ nil.

It must be noted that we have a Production Sharing Agreement in place with the Government of Azerbaijan based on the established Azeri oil industry model. Up until the time we have recovered all of our carried forward, unrecovered costs, the Government of Azerbaijan effectively takes 12.75% of commercial products of any mine we bring into production, with Anglo Asian taking 87.25%. We expect to continue retaining 87.25% of the commercial products until at least the end of 2012 based on costs incurred to date and, with the construction of the agitation leaching plant, this level of recovery is expected to continue beyond 2012.

In 2011 Anglo Asian generated revenues of US$83.8 million (2010: US$72.0 million) as a result of gold, silver and copper concentrate sales from the Gedabek mine. US$78.8 million of the revenue (2010: US$72.0 million) was generated from the sale of Anglo Asian's share of the production of dore bars for the year which comprised 49,304 ounces of gold and 34,593 ounces of silver (2010: 57,398 ounces of gold and 35,922 ounces of silver) at an average price of US$1,573 per ounce and US$35 per ounce respectively (2010: US$1,241 per ounce and US$22 per ounce). In addition, Anglo Asian generated revenue from the sale of copper concentrate of US$5.0 million (2010: US$ nil).

The Company incurred mining cost of sales of US$40.7 million (2010: US$40.6 million) and therefore reported a gross profit of US$43.0 million for 2011 (2010: US$31.4 million).

Maintaining good health, safety, social and environmental standards is a top priority for the Company and accordingly we have a Health, Safety, Environment and Technology Committee ('HSET') at Board level, under the chairmanship of Professor John Monhemius, a Non-executive Director of the Company. This committee, which meets at least twice a year, has the responsibility to oversee all aspects of the HSET performance of the Company and to make recommendations to the Board. We have approximately 500 personnel working in the Company.

The local community remains an important focus for us. Our main project in 2011 was to fund and construct a school for 300 students in Arixdam, the closest village to the Gedabek mine. This is now up and running successfully. Additionally, we continue to finance and train beekeepers, run a free internet café, and provide computer training courses to the local population. The Company has also financed and arranged the improvement of sections of roads in Arixdam and Duzyurd as well as the construction of a bridge and the building of a new pipeline to provide a potable water supply to the households residing within the vicinity of the Gedabek mine.

In summary, the past financial year has seen Anglo Asian cement its footprint in Caucasia as a significant gold producer in the region. Both solid production and a favourable gold/copper price has resulted in a strong financial performance for your Company, which enabled us to accelerate the repayment of loans, reduce debt ahead of schedule and build a strong cash position, which stood at US$9.9 million at 31 December 2011. With significant stockpiles of copper concentrate carried forward into the new financial year, this opens up potential further cash flow for FY 2012 when sale contracts have been secured.

Looking ahead to 2012 and beyond, whilst we remain committed to improving the operational efficiency and gold recovery rates at Gedabek, we expect to see continued solid gold, silver and copper production for the year.

We are also focused on producing a JORC compliant reserve estimate at Gedabek in Q2 2012 and will continue exploration and infill drilling throughout the remainder of the year to improve and upgrade the resource base. Furthermore, we remain committed to establishing a second mining project in Azerbaijan, Gosha, which will be another significant step for Anglo Asian as we focus on delivering exploration upside to become a leading mid-tier gold producer in Caucasia. We look forward to reporting on these developments in due course.

I would like to take this opportunity to thank our Anglo Asian employees, our partners, the Government of Azerbaijan, my fellow Directors, advisers and shareholders for their continued support and I look forward to updating shareholders regularly on our progress as we continue to build ourselves as a highly profitable, significant gold/copper/silver producer in Azerbaijan.

Khosrow Zamani
Non-executive Chairman
22 May 2012

"In May 2012, following a pre-feasibility study carried out by consultants, Arcadis Chile, the Company announced that it intends to construct an agitation leaching plant at Gedabek to further improve gold recoveries."

Reza Vaziri
President and Chief Executive

In summary

> **2011 has been a successful year for Anglo Asian in terms of solid gold and copper production and increasing profitability. The year ahead looks very promising as we advance our flagship mining operation Gedabek**

> **We remain committed to developing Gosha and enhancing our production profile by commencing development of a second mining operation in the second half of 2013**

> **I 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**

During the course of 2011 we continued to focus on the development of our flagship Gedabek mine. Our first aim was to realise our internal management target of circa 60,000 ounces of gold for the year. Our second aim was to continue exploring the greater Gedabek area to re-classify the mineral resource and ore reserves categories, and our third aim was to consider future mineral processing options such as agitation leaching to optimise gold recovery at the mine.

Additionally, in line with our strategy to establish other mining operations within Azerbaijan, we conducted exploration work at our other two Contract Areas, Gosha, which is located 50 km away from Gedabek, and Ordubad, which is located in the autonomous Nakhchivan Republic of Azerbaijan.

Mining operations

Gedabek

Gedabek is an open pit heap leach gold/copper/silver mining operation located on a 300 sq km Contract Area in western Azerbaijan across the Tethyan Tectonic Belt, one of the world's significant copper and gold bearing areas.

We were pleased to announce that for FY 2011 we produced 57,068 ounces of gold with an average cash operating cost of US$448 per ounce. With regards to gold and silver sales for the year, we sold 49,304 ounces of gold at an average of US$1,573 per ounce for the year and 34,593 ounces of silver at an average of US$35 per ounce.

Table 1 highlights the quarter-on-quarter gold production at Gedabek over the past year with average gold sale price achieved.

In terms of processing, during 2011 the volume of dry ore being transferred onto the leach pad totalled 842,751 tonnes with an average gold content of 3.29 g/t (2010: 821,176 tonnes of dry ore with an average gold content of 4.33 g/t). Table 2 summarises levels of dry ore that have been transferred to the leach pad on a quarterly basis from 1 January 2011 to 31 December 2011.

The reduced grade in 2011 was a result of treating transitional ore and was in line with our mine plan. A change in the physical characteristics of the ore, whereby a significant change in density and structure associated more with the transitional ore zone, affected the leaching rate and in turn the gold recovery and production. Channelling also occurred during the second half of the year in one of the cells as a result of the harsh winter, which affected leaching efficiencies.

Due to this, we implemented an initiative in Q3 2011 to accelerate waste removal to open

Table 1

Quarter Ended	Gold produced* (including Govt. of Azerbaijan's share (ounce)	Gold sales achieved* (ounce)	Weighted average gold sale price (US$)
31 March 2011	14,028	11,269	1,385
30 June 2011	14,582	13,317	1,506
30 September 2011	13,166	11,342	1,704
31 December 2011	15,292	13,376	1,688
Total for FY 2011	**57,068**	**49,304**	**1,573**

* This only includes gold produced and sold in the form of dore

up areas of oxide ore which has leaching characteristics more suitable to the heap leach process. Additionally, we crushed the ore more finely to make it more accessible to cyanide leaching.

As previously stated, Gedabek is currently an open pit heap leach operation. To ensure its long-term success as a leading gold/copper/silver mine in the Caucasian region we are continually looking at ways to improve operational efficiencies and production. Accordingly, in May 2012, following a pre-feasibility study carried out by consultants, Arcadis Chile, the Company announced that it intends to construct an agitation leaching plant at Gedabek. The plant will have the capacity to treat 100 tph of ore and has an expected capital cost of US$52 million, including construction of the tailings dam and all related infrastructure. The Company is now in the process of seeking approval from the Government of Azerbaijan for construction of this new plant.

For the recovery of copper concentrate at Gedabek we use a SART process, which facilitates the recovery of the copper dissolved in the leaching solution. The copper is recovered in the form of a precipitated copper sulphide concentrate by-product, which also contains silver with commercial value. Recovery of copper and silver from solution is in the region of 90% and 96% respectively. The SART process has the added economic benefit that substantial amounts of cyanide are recovered from the leach solutions.

Using this process, for the year 31 December 2011 we produced 611 tonnes of copper, 134,240 ounces of silver and 200 ounces of gold, which exceeded our internal target of 525 tonnes of copper for the year. A full quarterly breakdown of copper concentrate production can be reviewed in table 3.

We expect copper production in FY 2012 to total in the region of 833 tonnes of dry concentrate containing 500 tonnes of copper, 102,000 ounces of silver and 134 ounces of gold.

Exploration

Gedabek

During the period, exploration remained an important part of our focus at Gedabek to increase the resource base, which at the beginning of the year stood at 791,000 ounces of gold, 49,300 tonnes of copper and 7,597,000 ounces of silver for all categories, and in turn increase the life of mine at Gedabek, which currently stands at approximately 323,000 ounces of gold over a six year period.

During the course of 2010/2011 we undertook an advanced exploration programme comprising of a two phase drilling programme. Phase 1 drilling, which was completed February 2011, comprised 60 holes concentrated within the boundaries of the existing pit at Gedabek, totalling 5,452 metres across a 90,000 square metre area with 4,626 samples prepared and assayed.

Best intersections from the Phase 1 drilling programme at Gedabek included:

- SGSDD02 – 19m at 3.61 g/t Au, 10.52 g/t Ag and 0.18% Cu
- SGSDD16 – 17.3m at 11.57 g/t Au, 46.52 g/t Ag and 0.88% Cu
- SGSDD22A – 3.2m at 29.47 g/t Au, 11.76 g/t Ag and 0.61% Cu
- SGSDD31 – 2.3m at 16.05 g/t Au, 73.54 g/t Ag and 3.45 % Cu
- SGSDD33 – 2.1m at 9.35 g/t Au, 23.26 g/t Ag and 0.42 % Cu

Ore conveyance to leach pads

The second objective of the 2010 – 2011 exploration programme was to look at the mineral resources around the current economic open pit limit with a view to its possible future expansion. This was achieved by the Phase 2 exploration drilling campaign that consisted of 56 drill holes with 9,058.48 metres drilled and 4,080 samples prepared and assayed.

The results for Phase 1 and 2 drilling programmes demonstrated consistent gold, silver and copper grades and continuity of mineralisation at Gedabek. Importantly, it also increased the geological knowledge and confidence in the quantity and quality of the mineral resources and ore reserves within the current economic open pit limit at Gedabek, and also enabled us to gain a better understanding of the metallurgy of the ore body to help assess future mineral processing options such as agitation leaching. As previously mentioned in this report, agitation leaching could potentially enable an increase in Gedabek's mine life and improve its economic fundamentals.

Table 2

Quarter ended	Dry ore transferred to the leach pad (tonnes)	Average grade (g/t)
31 March 2011	208,271	3.32
30 June 2011	210,526	3.35
30 September 2011	233,217	3.22
31 December 2011	190,737	3.22
Total for FY 2011	**842,751**	**3.29**

Table 3

Quarter ended	Copper concentrate produced (dry tonnes)	Copper recovered (tonnes)	Silver produced (ounce)	Gold produced (ounce)
31 March 2011	200	104	24,484	74
30 June 2011	259	157	26,254	35
30 September 2011	294	179	45,110	29
31 December 2011	284	171	38,392	62
Total for FY 2011	**1,037**	**611**	**134,240**	**200**

Improving gold recoveries

A pre-feasibility study was completed in January 2012 aimed at looking at ways to improve gold recoveries at Gedabek. The study suggests that the current conventional heap leach process, which results in gold recoveries of circa 70% with leaching cycles extending up to a year, could be improved with an agitation leaching plant. This would see the production of gold with recovery rates for oxide and sulphide materials rising to 85% and 69% respectively. The plant, with an estimated capex of US$52 million, would be designed to treat 100 tonnes of ore per hour and is planned to be commissioned during H2 2013.

In summary

- **In April 2012 we were delighted to be able to announce a 50%* increase in the JORC-compliant gold resource at Gedabek to 37,111,577 tonnes at 0.884 g/t of gold for 1,054,382 ounces**
- **Having assessed the results of our exploration programme, in February 2011 we submitted a Notice of Discovery at Gosha to the Government of Azerbaijan**

Exploration continued

Gedabek continued

The Gedabek mineral deposit has the style of mineralisation typical of porphyry gold deposits (Robert, Poulsen and Dube, 1997), which is confirmed by the extensive analysis, interpretation and processing of the previous and recent sources of geological and chemical information. This is also supported by the geological and structural geology cross sections, which show that the spatial distribution of the gold, copper and silver mineralisation is located under, or immediate to, the geological contact between the andesitic and dacitic lavas and volcaniclastic tuffs and the dacitic quartz porphyry.

The updated mineral resources estimation was completed by mining consultants, CAE Mining, taking into account surface and open pit structural geology mapping and the information from the 2010-2011 exploration drilling campaigns, which together with earlier campaigns totalled 34,936 metres of drilling at Gedabek.

As a result, in April 2012 we were delighted to be able to announce a 50%* increase in the JORC-compliant gold resource at Gedabek to 37,111,577 tonnes at 0.884 g/t of gold for 1,054,382 ounces; 0.220% copper for 81,765 tonnes; and 7.215 g/t of silver for 8,608,551 ounces in the Measured and Indicated classifications at a cut-off grade of 0.3 g/t of gold. Including the Inferred category, the total JORC mineral resource is now 48,138,979 tonnes at 0.825 g/t gold for 1,276,422 ounces of gold (a 61% increase); 0.197 % copper for 94,890 tonnes (a 93% increase); and 6.66 g/t silver for 10,305,653 ounces (a 36% increase) at a cut-off grade of 0.3 g/t of gold.

The updated Measured, Indicated and Inferred mineral resources of both the oxide and sulphide mineralisation based on a cut-off grade of 0.3 g/t of gold is described in table 4.

In Q1 2012, we commenced a further 24,567 metre drilling programme with the aim of increasing the mineral resources of the Gedabek deposit and completing a JORC compliant ore reserves estimate in Q2 2012.

Gosha

The 300 sq km Gosha Contract Area is located in western Azerbaijan, 50 km north-west of Gedabek and contains three prospects: Gosha, Itkirlan and Munduglu. Following the Government of Azerbaijan's approval of the Development and Production Programme, it is our intention to develop a small, profitable, high grade underground gold mine at Gosha.

An exploration programme was undertaken at Gosha in 2010, which included 3,000 metres of drilling and 300 metres of adit and sample work. Gosha has more than 6 km of exploration adits from the Soviet era and this programme highlighted that one of its

Table 4

		Grades			Products		
Classification	Tonnage t	Au g/t	Cu %	Ag g/t	Au oz	Cu t	Ag oz
Measured	22,349,562	1.028	0.255	8.249	738,958	57,069	5,927,487
Indicated	14,762,015	0.665	0.167	5.649	315,424	24,696	2,681,064
Measured & Indicated	37,111,577	0.884	0.220	7.215	1,054,382	81,765	8,608,551
Inferred	11,027,402	0.626	0.119	4.787	222,040	13,125	1,697,102

mineralisation zones, 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. At present no JORC compliant information on Gosha's resource is available.

Having assessed the results of our exploration programme, in February 2011 we submitted a Notice of Discovery at Gosha to the Government of Azerbaijan, and later in November 2011 we submitted a Development and Production Programme in accordance with our PSA which was subsequently approved in April 2012. An update on our progress and summary of the proposed work programme at Gosha will be published in due course.

Ordubad
Our 462 sq km Ordubad Contract Area is located in the Nakhchivan region of Azerbaijan and contains numerous targets including Shakardara, Piyazbashi, Misdag, Agyurt, Shalala and Diakchay, which are all located within a 5 km radius of each other.

Post period end, in April 2012, we submitted a Notice of Discovery following exploration work performed by Anglo Asian at its Piyazbashi and Agyurt targets during 2010 and 2011, building on work performed in Soviet times. This exploration work included surface trenching and sampling, re-sampling of 3,000 metres of adits, 2,500 metres of surface drilling and 1,400 metres of underground drilling at the Agyurt target.

As with Gosha, under the terms of the PSA, following the submission of the Notice of Discovery, we have a six month period to submit a Development and Production Programme to the Government of Azerbaijan for approval.

Further information concerning the results of the studies and exploration work at Ordubad will be announced in due course and further exploration work is now planned with a view to confirming a small gold deposit with production potential.

Outlook
2011 has been a successful year for Anglo Asian in terms of solid gold and copper production and increasing profitability. The year ahead looks very promising as we advance our flagship mining operation Gedabek, continuing exploration to increase the resource base and define reserves and in turn increasing the life of mine. In addition the gold production target is 54,000 ounces for FY 2012 and the decision to build an agitation leaching plant to further improve gold recoveries marks an exciting time in Gedabek's development and its future success as the first gold mine in Azerbaijan in modern times. In addition, we remain committed to developing Gosha and enhancing our production profile by commencing development of a second mining operation in the second half of 2013. 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
22 May 2012

Adit at Gosha

* The 50% increase in the Updated Mineral Resources Report does not take in to account the ore that has been mined at Gedabek from the date of the first report October 2010 to now and ore that is currently in the leach pad process, or contained in ore stock piles.

"Gold production is expected to reach 54,000 ounces of gold for FY 2012 and the decision to build an agitation leaching plant to further improve gold recoveries marks an exciting time."

"I am pleased to report that in 2011 Anglo Asian generated revenues of US$83,753,311 (2010: US$72,012,543)."

Andrew Herbert
Chief Financial Officer

In summary

- **Net assets of the Group were US$76,867,936 (2010: US$58,018,453)**
- **The Group recorded profit before tax for the year of US$31,623,383 (2010: US$19,798,377)**

Introduction
I am pleased to report that in 2011 Anglo Asian generated revenues of US$83,753,311 (2010: US$72,012,543) as a result of gold, silver and copper concentrate sales from the Gedabek mine.

US$78,756,649 of the revenues (2010: US$72,012,543) were generated from the sale of Anglo Asian's share of the production of dore bars for the year which comprised 49,304 ounces of gold and 34,593 ounces of silver (2010: 57,398 ounces of gold and 35,922 ounces of silver) at an average price of US$1,573 per ounce and US$35 per ounce respectively (2010: US$1,241 per ounce and US$22 per ounce). In addition, Anglo Asian generated revenue from the sale of copper concentrate of US$4,996,662 (2010: US$ nil).

The Group incurred mining cost of sales of US$40,717,112 (2010: US$40,639,430) and therefore reported a gross profit of US$43,036,199 for 2011 (2010: US$31,373,113).

The Group incurred administration expenses of US$6,021,274 (2010: US$5,126,926) and finance costs for the year of US$3,270,909 (2010: US$6,314,522). The Group recorded profit before tax for the year of US$31,623,383 (2010: US$19,798,377). The finance costs for the year comprise interest on the credit facilities and loans, interest on letters of credit and accretion expenses on the rehabilitation provision.

During 2011, the Group reduced its outstanding loan with IBA from US$29,627,007 to US$13,041,000. In October 2011, Anglo Asian negotiated a reduction in the annual interest rate from 15% to 12%.

The table 5 below shows the schedule of repayments for the IBA loan.

During 2011, Anglo Asian repaid all of the outstanding balance of US$998,663 of the loan owed to the Company's CEO Reza Vaziri.

Remaining debt at 31 December 2011 stands at US$13,041,000 (2010: US$30,625,670), all due to IBA.

The Group held cash balances at 31 December 2011 of US$9,938,594 (2010: US$5,110,851) and inventories at cost of US$27,301,183 (2010: US$16,354,968).

Net assets of the Group were US$76,867,936 (2010: US$58,018,453).

During the year, exploration and evaluation expenditure of US$4,956,336 (2010: US$3,449,470) was incurred and capitalised.

The Group was charged corporation tax during the year of US$4,950,289 (2010: US$ nil). At 31 December 2011, R.V. Investment Group Services LLC, the Group entity party to the PSA, had utilised all its cumulative carried forward tax losses (2010: cumulative carried forward loss of US$13,394,919). The Company has booked a deferred tax liability of US$7,900,635 in 2011 (2010: US$4,560,934), bringing the total deferred tax liability provision to US$12,461,569 (2010: US$4,560,934).

Table 5

	2012 US$	2013 US$	Total US$
Repayment schedule for IBA loans	11,220,000	1,821,000	13,041,000

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 that 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 the remaining 25% balance). The Company expects that it will not have recovered all its costs by the end of 2012 and that the ratio of sharing commercial products for the 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 forecast cash position for the period ending 30 June 2013 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/amortisation

As described in note 3 of the annual report, the 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. An amount of 323,000 ounces of recoverable gold has been used to determine depreciation/amortisation on accumulated mine development costs. It is expected that as a result of the JORC compliant reserve report that is expected to be published in Q2 2012, the Group will revise its estimate of recoverable gold which it uses to determine depreciation/amortisation on accumulated mine development costs.

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 and interest rate risk

The Group has not used any interest rate swaps or other instruments to manage its interest rate profile during 2011 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
22 May 2012

Approval to build second gold mine

Having gained approval in May 2012 from the Ministry of Ecology and Natural Resources for a Development and Production Programme, the Company is focussed on developing the Gosha Gold Deposit into a small, profitable, high grade underground gold mine producing gold at an average rate of 10,000 to 15,000 ounces per annum for a period of up to five years. Gosha, located 50km away from Gedabek, will be the Company's second gold mine and is expected to go into development H2 2013. It is also anticipated that further drilling campaigns at Gosha will be undertaken to increase the economics of the proposed mine.

Board of Directors

Mr. Khosrow Zamani
Non-executive Chairman, Age 69
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 59
Reza Vaziri has been actively involved in business in the Republic of Azerbaijan since just after its independence. Since RVIG, now Anglo Asian's subsidiary, signed a Production Sharing Agreement with the Government of the Republic of Azerbaijan (the 'Government'), Reza has been focused on developing Anglo Asian Mining plc (the 'Company') 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 54
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 72
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 69
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, and he is a former Director of Obtala Resources plc.

Directors' report

The Directors submit their report and the consolidated financial statements of Anglo Asian Mining PLC for the year ended 31 December 2011.

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 R.V. Investment Group Services LLC ('RVIG'). The Company, together with its subsidiaries (together referred to as the "Group"; see also note 16 on page 35), is involved in the exploration and development of gold and copper projects in the Republic of Azerbaijan and the operation of the Gedabek mine in the Republic of 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 4 and 5, the Chief Executive's Review on pages 6 to 9 and the Finance Review on pages 10 and 11.

The Group's net profit after taxation for the year ended 31 December 2011 amounted to US$18,772,459 (2010: US$15,237,443).

Business review

A business overview is discussed on pages 4 and 5 of the Chairman's Statement. Other risks are discussed in the Finance Review on pages 10 and 11.

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 12.

Directors' interests

The Directors in office during the year and their interests in ordinary shares of the Company at 31 December 2011 and 31 December 2010 were:

Directors	**31 December 2011 Number of shares**	31 December 2010 Number of shares
Khosrow Zamani	**793,184**	243,184
Reza Vaziri	**32,796,830**	32,796,830
Richard Round	**153,958**	213,958
John Sununu	**10,674,540**	10,674,540
John Monhemius	**55,556**	55,556

A total of 650,000 (2010: 1,451,358) shares were issued during the year to the Directors and employees as a result of options exercised bringing the total number of ordinary shares with voting rights to 111,047,307 at 31 December 2011 (2010: 110,397,307).

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 2011	Granted during the year	Exercised during the year	Forfeited in the year	Lapsed in the year	**As at 31 December 2011**
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	250,000	—	(100,000)	—	—	**150,000**
	35.4	19 October 2021	—	225,000	—	—	—	**225,000**
			3,526,684	225,000	(650,000)	—	—	**3,101,684**

All options can be exercised at various dates up to 19 October 2021.

Directors' indemnities

The Group 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 2013 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 4 and 5 and the Chief Executive's Review on pages 6 to 9. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 10 and 11. In addition, note 23 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 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 2011. 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 (2010: US$ nil).

Substantial and significant shareholdings

The Company has been informed that on 22 May 2012 the following shareholders held substantial and significant 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 24 (2010: 27).

Financial instruments

Financial instruments are disclosed in note 23 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 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 25 June 2012 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 28 to the consolidated financial statements.

Auditors

Ernst & Young LLP were appointed as auditors of the Company for the year ended 31 December 2011. 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 16.

Subsequent events

Subsequent events are disclosed in note 29 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 financial statements of the Company (the parent company) 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 International Accounting Standard (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;

> 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; and

> make judgements and estimates that are reasonable and prudent.

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 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
22 May 2012

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 Mr. Richard Round and Mr. 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 Mr. Khosrow Zamani and Mr. 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 Mr. Khosrow Zamani and Mr. 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 Mr. John Monhemius and Mr. 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.angloasianmining.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 2011 which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and the related notes 1 to 29. 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 15, 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 2011 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 2011.

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 May 2012

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 2011

	Notes	**Year ended 31 December 2011 US$**	Year ended 31 December 2010 US$
Revenue	5	**83,753,311**	72,012,543
Cost of sales		**(40,717,112)**	(40,639,430)
Gross profit		**43,036,199**	31,373,113
Other income	6	**1,049,579**	719,446
Administrative expenses		**(6,021,274)**	(5,126,926)
Other operating expense	6	**(3,221,212)**	(852,734)
Operating profit	7	**34,843,292**	26,112,899
Finance income	5	**51,000**	—
Finance costs	10	**(3,270,909)**	(6,314,522)
Profit before tax		**31,623,383**	19,798,377
Income tax expense	11	**(12,850,924)**	(4,560,934)
Profit for the period attributable to the equity holders of the parent		**18,772,459**	15,237,443
Earnings per share for the period attributable to the equity holders of the parent			
Basic earnings per share (cents per share)	12	**16.91**	13.88
Diluted earnings per share (cents per share)	12	**16.47**	13.37

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Profit for the year	**18,772,459**	15,237,443
Total comprehensive income for the year	**18,772,459**	15,237,443
Attributable to the equity holders of the parent	**18,772,459**	15,237,443

Consolidated balance sheet

as at 31 December 2011

	Notes	As at 31 December 2011 US$	As at 31 December 2010 US$
Non-current assets			
Intangible assets	13	**28,837,939**	34,469,441
Property, plant and equipment	14	**43,549,670**	43,290,670
Non-current prepayments	15	**292,290**	284,461
		72,679,899	78,044,572
Current assets			
Trade receivables and other assets	17	**3,770,996**	4,322,094
Inventories	18	**27,301,183**	16,354,968
Cash and cash equivalents	19	**9,938,594**	5,110,851
		41,010,773	25,787,913
Total assets		**113,690,672**	103,832,485
Current liabilities			
Trade and other payables	20	**(8,807,760)**	(9,263,458)
Interest-bearing loans and borrowings	21	**(11,307,412)**	(10,641,996)
		(20,115,172)	(19,905,454)
Net current assets		**20,895,601**	5,882,459
Non-current liabilities			
Provision for rehabilitation	22	**(2,424,995)**	(1,363,970)
Interest-bearing loans and borrowings	21	**(1,821,000)**	(19,983,674)
Deferred tax liability	11	**(12,461,569)**	(4,560,934)
		(16,707,564)	(25,908,578)
Total liabilities		**(36,822,736)**	(45,814,032)
Net assets		**76,867,936**	58,018,453
Equity			
Share capital	24	**1,967,704**	1,957,424
Share premium account		**32,139,674**	32,101,124
Share-based payment reserve		**648,789**	638,377
Merger reserve	24	**46,206,390**	46,206,390
Accumulated loss		**(4,094,621)**	(22,884,862)
Total equity		**76,867,936**	58,018,453

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 22 May 2012. They were signed on its behalf by:

Reza Vaziri
Chief Executive

Consolidated cash flow statement

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Net cash provided by operating activities	25	**38,075,397**	34,367,253
Investing activities			
Expenditure on property, plant and equipment and mine development		**(7,739,793)**	(8,471,353)
Investment in exploration and evaluation assets including other intangible assets		**(5,069,388)**	(3,477,014)
Net cash used in investing activities		**(12,809,181)**	(11,948,367)
Financing activities			
Shares issued in lieu of cash and for share options exercised		**65,028**	184,800
Proceeds from borrowings		**—**	3,099,100
Repayments of borrowings		**(17,586,663)**	(15,477,371)
Interest paid		**(2,916,838)**	(5,924,112)
Net cash used in financing activities		**(20,438,473)**	(18,117,583)
Net increase in cash and cash equivalents		**4,827,743**	4,301,303
Cash and cash equivalents at the beginning of the year	19	**5,110,851**	809,548
Cash and cash equivalents at the end of the year	19	**9,938,594**	5,110,851

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Notes	Share capital US$	Share premium US$	Share-based payment reserve US$	Merger reserve US$	Accumulated loss US$	Total equity US$
At 1 January 2010		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	24	23,061	161,739	—	—	—	184,800
Share-based payment charge for the year	26	—	—	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
Profit for the year		—	—	—	—	18,772,459	18,772,459
Total comprehensive income		—	—	—	—	18,772,459	18,772,459
Shares issued	24	10,280	38,550	—	—	—	48,830
Options exercised during the year		—	—	(17,782)	—	17,782	—
Share-based payment charge for the year	26	—	—	28,194	—	—	28,194
At 31 December 2011		**1,967,704**	**32,139,674**	**648,789**	**46,206,390**	**(4,094,621)**	**76,867,936**

Notes to the consolidated financial statements

for the year ended 31 December 2011

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 2013 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 (the 'Company') is a public limited company incorporated and operating 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 13 to 15.

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 Companies Act 2006 and were approved for issue on 22 May 2012. These consolidated financial statements, for the year ended 31 December 2011 and 31 December 2010, 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 unless described otherwise in the accounting policy below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31 December each year. Control is achieved where the Group 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.

Changes in accounting policies, new standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following new amendments to the standards adopted by the Group on 1 January 2011:

IAS 24 'Related Party Disclosures' (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of this interpretation had no effect on the consolidated financial statements of the Group.

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. The adoption of this interpretation had no effect 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 had no effect on the consolidated financial statements of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but had no impact on the financial position or performance of the Group:

IFRS 7 Financial Instruments — Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Measurement options available for non-controlling interest);
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008));
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards);

3. Significant accounting policies continued

Improvements to IFRSs continued

- IAS 27 Consolidated and Separate Financial Statements;
- IAS 34 Interim Financial Statements;
- International Financial Reporting Interpretations Committee ('IFRIC') 13 Customer Loyalty Programmes (determining the fair value of award credits); and
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment).

New standards and amendments issued, but not yet effective

Standards issued, but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation — Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred, but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

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 and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013, although this effective date is tentative as the standard has not yet been adopted by European Union. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. The new standards shall be applied retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for changes in accounting policy, with some modifications and is effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on the financial position and performance.

IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 changes the accounting for joint arrangements by moving the old three categories to two new categories: joint venture and joint operations. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. The parties are required to considered whether a separate vehicle exists, and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances. In addition, IAS 28 was amended to include the application of the equity method to investments in joint ventures. The new standards will be applied using a modified retrospective approach and will be effective for annual periods beginning on or after 1 January 2013. The adoption of new standards does not have significant impact on the Group's financial position or performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. The objective of the new disclosure requirements is to help the users of financial statements understand the effects of an entity's interests in other entities on its financial position, financial performance and cash flows, as well as the nature of, and the risks associated with, the entity's interest in other entities. IFRS 12 will be applied retrospectively in accordance with requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for changes in accounting policy, with comparative disclosures required effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on the financial position and performance.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3. Significant accounting policies continued

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 13)

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 18)

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 13 and 14)

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.

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. This is also the point at which the depreciation/amortisation recognition 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.

3. Significant accounting policies continued

Significant accounting judgements, estimates and assumptions continued

Mine rehabilitation provision (note 22)

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 the consolidated statement of financial position 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 statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 'Property, Plant and Equipment'. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the 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 11)

Judgement is required in determining whether deferred tax assets are recognised on the consolidated statement of financial position. Deferred tax assets, including those arising from unutilised 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.

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.

Copper concentrate sales

Contract terms for the Group's sale of gold, silver and copper in concentrate (metal in concentrate) allow for a price adjustment based on final assay results of the metal in concentrate to determine the final content. Recognition of sales revenue for these commodities is based on the most recently determined estimate of metal in concentrate (based on initial assay results) and the spot price at the date of shipment, with a subsequent adjustment made upon final determination and presented as part of "Other Income".

The terms of metal in concentrate sales contracts with third parties contain provisional pricing arrangements whereby the selling price for metal in concentrate is based on average prevailing spot prices during a specified future period after shipment to the customer (the 'quotation period').

The provisionally priced sales of metal in concentrate contain an embedded derivative, which is required to be separated from the host contract for accounting purposes. The host contract is the sale of metals in concentrate and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. Accordingly the embedded derivative, which does not qualify for hedge accounting, is recognised at fair value, with subsequent changes in the fair value recognised in profit or loss each period until final settlement, and presented as 'Other Income'. Changes in fair value over the quotation period and up until final settlement are estimated by reference to forward market prices for gold and copper.

Interest revenue

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

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the consolidated income statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The Group had no significant finance leases during 2011 and 2010.

3. Significant accounting policies continued

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 consolidated statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the consolidated statement of financial position 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 consolidated statement of financial position 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 consolidated statement of financial position 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 at the consolidated statement of financial position date.

Value-added taxes ('VAT')

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

Transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's length basis.

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 units-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 units-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 the 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 an 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 the asset are charged directly to 'Plant and equipment' or 'Producing mines' i.e. where the 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.

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 units-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 units-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.

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.

3. Significant accounting policies continued

Provisions continued

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value.

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.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification:

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate method amortisation is included in finance income in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement.

Derecognition

A financial asset (or, where applicable, a part of a financial asset) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses at each consolidated statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

3. Significant accounting policies continued

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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, contractual provisions and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Trade and other payables and contractual provisions

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 accrual 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.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate method amortisation is included in finance cost in the consolidated income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Non-current prepayments

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

Inventories

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

Ore stockpiles consist of stockpiled ore, ore on surface 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, reagents 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.

3. Significant accounting policies continued

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 consolidated income statement 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 'Producing mines'. 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 applied 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.

Reclassifications

Certain reclassifications have been made to the amounts disclosed in prior year consolidated financial statements. There was no impact on the Group's financial position, results of operations and equity as a result of these reclassifications.

4. Segment information

The operations of the Group are all located within the Republic of Azerbaijan. The Group has one producing asset: its gold and copper mine in Gedabek. All sales of gold and silver bullions are made to one customer, the Group's gold refinery, MKS Finance SA, based in Switzerland. Copper concentrate is sold to two customers – Seagate Minerals and Metals Inc and Glencore International AG. Management of the Group does not segment the business when evaluating its performance.

5. Revenue

The Group's revenue consists of bullion and copper concentrate sold to third-party customers. Revenue from sales of gold and silver bullion was US$77,561,807 and US$1,194,842 respectively (2010: US$71,236,994 and US$775,549). Revenue from sales of copper concentrate was US$4,996,662 (2010: US$ nil).

Finance income of US$51,000 in 2011 represents cash deposit interest received during the year (2010: US$ nil).

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 cost, 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 2011 and 2010.

7. Operating profit

	Notes	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Operating profit is stated after charging:			
Depreciation on property, plant and equipment – owned	14	**12,524,389**	13,112,368
Amortisation of mining rights and other intangible assets	13	**6,587,910**	7,752,668
Employee benefits and expenses	9	**7,577,918**	6,503,761
Net foreign currency exchange loss		**201,522**	421,506
Inventory expensed during the year		**13,031,962**	10,976,653
Operating lease expenses		**311,098**	256,447
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		**119,500**	102,331
The audit of the Group's subsidiaries pursuant to legislation		**118,800**	108,000
Total audit fees		**238,300**	210,331
Tax services		**28,482**	—
Total non-audit services		**28,482**	—

The audit fees for the parent company were US$40,300 (2010: US$24,000).

8. Remuneration of Directors

Year ended 31 December 2011	**Consultancy US$**	**Fees US$**	**Benefits US$**	**Total US$**
Richard Round	**—**	**52,159**	**—**	**52,159**
John Sununu	**—**	**76,232**	**—**	**76,232**
Khosrow Zamani	**—**	**128,390**	**—**	**128,390**
Reza Vaziri	**308,137**	**52,159**	**42,000**	**402,296**
John Monhemius	**17,158**	**52,159**	**—**	**69,317**
Total	**325,295**	**361,099**	**42,000**	**728,394**

Directors' fees and consultancy fees for 2011 included above were paid in cash.

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.

9. Staff numbers and costs

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

	Year ended 31 December 2011 Number	Year ended 31 December 2010 Number
Management and administration	**50**	49
Processing and exploration	**65**	87
Mine operations	**393**	291
Total	**508**	427

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Wages and salaries	**7,617,726**	7,244,118
Share-based payments	**28,194**	16,575
Social security costs	**1,763,767**	1,426,543
	9,409,687	8,687,236
Less: salary costs capitalised as exploration, evaluation development, fixed asset and inventory expenditure	**(1,831,769)**	(2,183,475)
Total employee costs	**7,577,918**	6,503,761

9. Staff numbers and costs continued

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 2011 US$	Year ended 31 December 2010 US$
Short-term employee benefits	**728,394**	582,359
Share-based payment	**5,953**	16,575
	734,347	598,934

10. Finance costs

	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Interest charged on interest-bearing loans and borrowings	**3,006,243**	6,021,266
Finance charges on letters of credit and accretion expenses	**264,666**	375,099
Interest capitalised during the period	**—**	(81,843)
Total finance cost	**3,270,909**	6,314,522

Interest on interest-bearing loans and borrowings represents charges incurred on credit facilities with the International Bank of Azerbaijan ('IBA') and a loan from Mr. Reza Vaziri, a Director and CEO of the Group.

Effective 1 October 2011 the interest rate on credit facilities obtained from IBA was revised from 15% per annum to 12% per annum.

Interest on the loan from Mr. Reza Vaziri was 8% per annum (2010: 8%). The loan from Mr. Reza Vaziri has been fully repaid during 2011.

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 14).

11. Taxation

Corporation tax is calculated at 32% (as stipulated in the PSA for RVIG in the Republic of Azerbaijan, the entity that contributes most significant portion of profit before tax in the 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. Deferred income taxes arising in RVIG are recognised and fully disclosed in these consolidated financial statements. The Group has fully utilised tax losses available in RVIG during 2011.

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

	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Current income tax:		
Current income tax charge	**4,950,289**	—
Deferred tax:		
Relating to origination and reversal of temporary differences	**7,900,635**	4,560,934
Income tax expense reported in the consolidated income statement	**12,850,924**	4,560,934

11. Taxation continued

Deferred income tax at December 31 relates to the following:

	Consolidated Statement of Financial Position		Consolidated Income Statement	
	As at 31 December 2011 US$	As at 31 December 2010 US$	**Year ended 31 December 2011 US$**	Year ended 31 December 2010 US$
Deferred income tax liability:				
Property, plant and equipment	**(6,546,680)**	(5,834,562)	**(712,118)**	(5,834,562)
Non-current prepayments	**(93,533)**	(91,028)	**(2,505)**	(91,028)
Trade and other receivables	**(493,324)**	(402,692)	**(90,632)**	(402,692)
Inventories	**(7,553,692)**	(4,504,103)	**(3,049,589)**	(4,504,103)
Deferred tax liability	**(14,687,229)**	(10,832,385)		
Deferred income tax asset:				
Trade and other payables and provisions	**2,225,660**	1,985,077	**240,583**	1,985,077
Carry forward losses	**—**	4,286,374	**(4,286,374)**	4,286,374
	2,225,660	6,271,451		
Deferred income tax expense			**(7,900,635)**	(4,560,934)
Net deferred tax liability	**(12,461,569)**	(4,560,934)		

	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Profit before tax	**31,623,383**	19,798,377
Theoretical tax charge at statutory rate of 32%	**10,119,483**	6,335,482
Effects of different tax rates for certain Group entities (28%)	**65,062**	28,859
Tax effect of items which are not deductible or assessable for taxation purposes:		
– losses in jurisdictions that are exempt from taxation	**3,271**	4,482
– non-deductible expenses	**2,365,088**	2,381,812
Unrecognised deferred tax assets	**298,020**	1,360,508
Benefit from unrecognised deferred tax assets of previous years	**—**	(5,550,209)
Income tax expense for the year	**12,850,924**	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 recognised 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 the Republic of Azerbaijan.

At the balance sheet date, the Group has unused tax losses of US$6,813,064 (2010: US$20,053,271) available for offset against future profits. Unused tax losses in the Republic of Azerbaijan brought forward from prior years were fully utilised during 2011. No deferred tax assets have been recognised in respect of jurisdictions other than the Republic of Azerbaijan due to the uncertainty of future profit streams.

12. Earnings per share

The basic earnings per share of 16.91 cents (2010: 13.88 cents) has been based on a weighted average number of shares in issue of 110,993,882 (2010: 109,765,126) and a net income of US$18,772,459 (2010: US$15,237,443).

Dilutive earnings per share is 16.47 cents for 2011 (2010: 13.37 cents). Dilutive earnings per share has been based on 113,970,224, the weighted average number of shares determined based on the dilutive effects of 2,826,684 share options exercisable as of 31 December 2011 and 275,000 share options not vested by 31 December 2011.

13. Intangible assets

Exploration and evaluation assets

	Gedabek US$	Gosha US$	Ordubad US$	Total US$
Cost				
As at 1 January 2010	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
Additions	2,914,644	1,576,621	465,071	4,956,336
Transfer to property, plant and equipment	—	(4,101,340)	—	(4,101,340)
As at 31 December 2011	**4,946,919**	**—**	**2,173,640**	**7,120,559**

13. Intangible assets continued

Mining rights and other intangible assets

	Mining rights US$	Other intangible assets US$	Total US$
Cost			
As at 1 January 2010	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
Additions	—	101,412	101,412
As at 31 December 2011	**41,925,262**	**443,201**	**42,368,463**
Amortisation and impairment			
As at 1 January 2010	(6,293,360)	(17,145)	(6,310,505)
Charge for the year	(7,682,138)	(70,530)	(7,752,668)
As at 31 December 2010	(13,975,498)	(87,675)	(14,063,173)
Charge for the year	(6,517,353)	(70,557)	(6,587,910)
As at 31 December 2011	**(20,492,851)**	**(158,232)**	**(20,651,083)**
Net book value			
As at 31 December 2010	27,949,764	254,114	28,203,878
As at 31 December 2011	**21,432,411**	**284,969**	**21,717,380**

14. 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 2010	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
Additions	13,600	427,426	—	201,801	729,893	5,010	6,336,454	7,714,184
Transfer to producing mines	—	—	4,921,316	—	—	—	(4,921,316)	—
Transfer from evaluation and exploration assets	—	—	—	—	—	—	4,101,340	4,101,340
Increase in provision for rehabilitation	—	—	967,865	—	—	—	—	967,865
As at 31 December 2011	**316,357**	**7,269,929**	**54,143,559**	**756,946**	**2,580,925**	**455,105**	**8,462,183**	**73,985,004**
Depreciation and impairment*								
As at 1 January 2010	(152,602)	(1,119,602)	(2,566,134)	(200,833)	(508,271)	(251,135)	—	(4,798,577)
Charge for the 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)
Charge for the year	(38,745)	(981,598)	(10,962,382)	(135,999)	(349,181)	(56,484)	—	(12,524,389)
As at 31 December 2011	**(229,192)**	**(3,016,620)**	**(25,220,657)**	**(453,102)**	**(1,152,530)**	**(363,233)**	**—**	**(30,435,334)**
Net book value								
As at 31 December 2010	112,310	4,807,481	33,996,103	238,042	1,047,683	143,346	2,945,705	43,290,670
As at 31 December 2011	**87,165**	**4,253,309**	**28,922,902**	**303,844**	**1,428,395**	**91,872**	**8,462,183**	**43,549,670**

* An amount of 323,000oz of recoverable gold has been used to determine depreciation on accumulated mine development costs. The Group will use a new recoverable gold amount for the purposes of depreciation prospectively starting from 2012 based on a new JORC-compliant reserve report that is expected to become available to the Group in the first half of 2012.

The capital commitments by the Group have been disclosed in note 27.

15. Non-current prepayments

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

16. Subsidiary undertakings

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

17. Trade receivables and other assets

	As at 31 December 2011 US$	As at 31 December 2010 US$
Gold held on behalf of the Government	**1,168,185**	1,533,403
VAT refund due	**978,442**	1,457,609
Trade receivables	**93,330**	240,664
Prepayments	**257,677**	235,445
Advances	**1,273,362**	845,858
Other receivables	**—**	9,115
	3,770,996	4,322,094

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

The VAT refund due at 31 December 2011 and 2010 relates to VAT paid on purchases.

The gold bullion receivable on behalf of the Government relates to bullion held in the account of the Group for which the Government 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. A corresponding liability to the Government is included in trade and other payables shown in note 20.

During 2011 the Group has written off the tax receivable ('VAT refund due') in the amount of US$620,075 (2010: US$ nil) due to uncertainties in its recoverability.

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

18. Inventories

	As at 31 December 2011 US$	As at 31 December 2010 US$
At cost		
Finished goods – bullion	**1,151,566**	833,314
Finished goods – metal in concentrate	**3,258,156**	1,370,286
Metal in circuit	**18,434,070**	11,114,620
Ore stockpiles	**—**	409,995
Spare parts and consumables	**4,457,391**	2,626,753
	27,301,183	16,354,968

In early 2010 the Group commenced production of metal in concentrate with the first sale made in 2011.

During 2011 the Group wrote down the accumulated balance of unrecoverable low grade ore stockpiles at the amount of US$1,141,758.

19. 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.

Cash and cash equivalents include a short-term deposit of US$8,000,000 held for a maturity of three months with Yapi Kredi Bank Azerbaijan at 5% per annum. The Group's cash and cash equivalents are mostly held in US Dollars.

20. Trade and other payables

	As at 31 December 2011 US$	As at 31 December 2010 US$
Accruals and other payables	**5,104,558**	5,095,662
Trade creditors	**1,904,655**	2,634,393
Gold held on behalf of the Government	**1,168,185**	1,533,403
Payable to the Government from copper concentrate joint sale	**519,872**	—
Current income tax payable	**110,490**	—
	8,807,760	9,263,458

Trade creditors and other payables and accruals primarily comprise amounts outstanding for trade purchases and ongoing costs. Trade creditors are non-interest bearing and the creditor days were 24 (2010: 27). 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.

Amount owed to the Government from copper concentrate joint sale represents the portion of cash received from the customer for the Government's portion from the joint sale of copper concentrate. This balance was fully settled subsequent to year end 2011.

Letters of credit totalling US$969,600 (2010: US$1,885,794 with IBA) were negotiated with several European banks and guaranteed by Bank Standard JSC at 31 December 2011 to finance working capital additions and are currently held within trade creditors.

21. Interest-bearing loans and borrowings

	As at 31 December 2011 US$	As at 31 December 2010 US$
Loans from IBA	**13,128,412**	29,627,007
Loan from Mr. Reza Vaziri	**—**	998,663
Total interest-bearing loans and borrowings	**13,128,412**	30,625,670
Loans repayable in less than one year	**11,307,412**	10,641,996
Loans repayable in more than one year	**1,821,000**	19,983,674

During 2011 the Group has repaid a portion of loan totalling US$16,588,000 to IBA, US$6,868,588 of which represents the early repayment of amounts due in 2012. Originally scheduled repayments due in 2012 were US$18,176,000, of which US$11,307,412 remains outstanding at 31 December 2011 after allowing for the US$6,868,588 early repayment during the year. As mentioned in note 10, the interest rate on credit facilities obtained from IBA was reduced from 15% per annum to 12% per annum effective from 1 October 2011.

The Group repaid all of its outstanding loan from Mr. Reza Vaziri totalling US$998,663 during 2011.

As at 31 December 2011 the Group had undrawn facilities of US$227,000 (2010: US$227,000) after consideration of the letters of credit which are guaranteed by the IBA.

22. Provision for rehabilitation

	2011 US$	2010 US$
Carrying amount as at 1 January	**1,363,970**	1,530,978
Additions	**1,327,033**	87,145
Accretion expense	**93,160**	76,549
Effect of change in discount rate	**(359,168)**	(330,702)
Carrying amount as at 31 December	**2,424,995**	1,363,970

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$4,043,836 undiscounted liability for 2011 and US$2,110,669 undiscounted liability for 2010, discounted using a risk-free rate of 6.83% for 2011 and 5.00% for 2010).

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

23. 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 2011 and 2010 using the amounts of debt and other financial assets and liabilities held as at those reporting dates.

Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, 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 IBA, 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.

23. Financial instruments continued

Capital risk management continued

	As at 31 December 2011 US$	As at 31 December 2010 US$
Interest-bearing loans and borrowings (note 21)	**13,128,412**	30,625,670
Less cash and cash equivalents (note 19)	**(9,938,594)**	(5,110,851)
Net debt	**3,189,818**	25,514,819
Equity	**76,867,936**	58,018,453
Capital and net debt	**80,057,754**	83,533,272
Gearing ratio	**4%**	31%

Interest rate risk management

The Group's cash and cash equivalents are not subject to interest. All letters of credit, borrowings and interest-bearing loans of the Group are at a fixed rate of interest. The Group manages the risk 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 2011.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the consolidated statement of financial position date. 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.

The increase/decrease in the discount rate by 50 points results in an increase in the rehabilitation provision by US$88,361 and a decrease of US$92,368, respectively.

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 21 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 2011

	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	**—**	**—**	**11,220,000**	**1,821,000**	**—**	**13,041,000**
Trade and other payables	**1,777,515**	**4,857,387**	**484,800**	**—**	**—**	**7,119,702**
Provision for rehabilitation	**—**	**—**	**—**	**—**	**4,043,836**	**4,043,836**
	1,777,515	**4,857,387**	**11,704,800**	**1,821,000**	**4,043,836**	**24,204,538**

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
Provision for rehabilitation	—	—	—	—	2,110,669	2,110,669
	5,286,527	4,483,594	10,122,007	19,997,000	2,110,669	41,999,797

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 consolidated statement of financial position 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 of gold-silver bullions are made to MKS Finance SA, a Switzerland-based gold refinery and copper concentrates to Seagate Minerals and Metals and Glencore International AG. Due to the nature of the customers, the Board does not feel that a significant credit risk exists for receipt of revenues. 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.

23. Financial instruments continued

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	
	2011 US$	2010 US$	**2011 US$**	2010 US$
UK Sterling	**54,496**	102,726	**31,525**	9,647
Azerbaijan Manats	**4,812,429**	4,978,768	**1,310,806**	1,597,412
Other	**154,226**	41,278	**8,126**	39,473

Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 12.50% and 5.09% (2010: 20.00%) increase and decrease in the US Dollar against UK sterling and Azerbaijan Manat, respectively. These are the sensitivity rates 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 respective change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the US Dollar strengthens by mentioned rates against the relevant currency. Weakening of the US Dollar against the relevant currency, would have an equal and opposite impact on the profit and other equity, and the balances below would be reversed.

	UK Sterling impact		Azerbaijan Manat impact	
	2011 US$	2010 US$	**2011 US$**	2010 US$
Effect on profit before tax	**2,871**	15,513	**178,233**	563,559

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 revenue of US$7,837,462 and a 10% increase in gold prices would result in an increase in revenue of US$7,837,462. A 10% decrease in silver price would result in a reduction in revenue of US$366,452 and a 10% increase in silver prices would result in an increase in revenue of US$366,452. A 10% decrease in copper price would result in a reduction in revenue of US$171,417 and a 10% increase in copper prices would result in an increase in revenue of US$171,417.

24. Equity

	As at 31 December 2011 UK Sterling	As at 31 December 2010 UK Sterling
Authorised:		
600,000,000 ordinary shares of 1 pence each	**6,000,000**	6,000,000

	US$	US$
Issued and fully paid:		
111,047,307 ordinary shares of 1 pence each (2010: 110,397,307 ordinary shares of 1 pence each)	**1,967,704**	1,957,424

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 2010	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
Exercise of stock options	650,000	10,280
At 31 December 2011	**111,047,307**	**1,967,704**

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

24. Equity continued

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 26).

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.

25. Notes to the cash flow statement

	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Profit before tax	**31,623,383**	19,798,377
Adjustments for:		
Finance costs (note 10)	**3,270,909**	6,314,522
Depreciation of property, plant and equipment (note 14)	**12,524,389**	13,112,368
Amortisation of mining rights and other intangible assets (note 13)	**6,587,910**	7,752,668
Share-based payment expense (note 26)	**28,194**	16,575
Write down of taxes receivable (note 17)	**620,075**	—
Write down of unrecoverable inventory (note 18)	**1,141,758**	—
Operating cash flows before movements in working capital	**55,796,618**	46,994,510
Decrease in trade and other receivables	**(68,977)**	(485,410)
Increase in inventories	**(12,087,973)**	(6,023,338)
Decrease in trade and other payables	**(730,126)**	(6,118,509)
Cash provided by operations	**42,909,542**	34,367,253
Income taxes paid	**(4,834,145)**	—
Net cash provided by operating activities	**38,075,397**	34,367,253

26. Share-based payments

Equity-settled share options

The Group operates a share option scheme for Directors and senior employees of the Group. Options are granted at a price agreed at the time of the grant. The vesting 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:

	2011		2010	
	Number of share options	**Weighted average exercise price Pence**	Number of share options	Weighted average exercise price Pence
Outstanding at the beginning of the year	**3,526,684**	**29**	4,226,684	23
Granted during the year	**225,000**	**35**	—	—
Lapsed during the year	**—**	**—**	—	—
Forfeited during the year	**—**	**—**	—	—
Exercised during the year	**(650,000)**	**5**	(700,000)	5
Outstanding at 31 December	**3,101,684**	**34**	3,526,684	29
Exercisable at 31 December	**2,826,684**	**34**	3,426,684	29

The options outstanding at 31 December 2011 had a weighted average exercise price of 34 pence (ranging from 4.75 pence to 97 pence) and a weighted average remaining contractual life of five years. 225,000 options (2010: nil) were granted in 2011. The aggregate of the estimated fair values of the options granted on those dates is £40,306 (US$63,685).

26. Share-based payments continued

Equity-settled share options continued

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

Granted on 19 October 2011	
Weighted average share price	£0.35
Weighted average exercise price	£0.35
Expected volatility	95%
Expected life	2 years
Risk-free rate	1.34%

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 19 October 2011 is £0.18.

Total share-based payment expense recognised by the Group

The Group recognised total expenses of US$28,194 and US$16,575 related to equity-settled share-based payment transactions in 2011 and 2010, respectively.

Shared-based payment charges for options executed during 2011 of the amount of US$17,782 (2010: US$ nil) were reclassified from share-based payment reserve to accumulated loss.

The cumulative amount recognised in equity relating to share-based payments at the consolidated statement of financial position date was US$648,789 (2010: US$638,377).

27. Contingencies and commitments

The Group undertakes its mining operations in the Republic of 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, compliance with environmental and ecological requirements, etc. The Directors believe that RVIG is in compliance with the requirements of the PSA. The Group has announced a discovery on Gosha Mining Property in February 2011 and submitted development programme to the Government according to the PSA requirements.

The Group also announced a discovery on Ordubad Group of Mining Properties subsequent to the consolidated statement of financial position date (see note 29) and has six months from April 2012 to present the Government 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 2011.

There were no capital commitments at 31 December 2011.

28. Related party transactions

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

Trading transactions

During the years 2011 and 2010, 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, the Republic of Azerbaijan. The cost of the lease in the year was US$93,135 (2010: US$91,613).

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

c) Remunerations paid to Directors are disclosed in note 8.

d) An interest-bearing loan of US$998,663 from Mr. Reza Vaziri was repaid during the year.

e) During the year US$68,455 (2010: US$103,696) of interest was paid on the loan of US$998,663 from Mr. Reza Vaziri.

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

g) Equipment and spare parts of the amount of US$317,000 were bought from Proses Muhendislik Danismanlik Inshaat ve Tasarim Anonim Shirket of which the Chief Technical Officer of Azerbaijan International Mining Company, representative office in Azerbaijan Republic ('AIMC') has a direct ownership interest.

29. Subsequent events

The following subsequent events relate to the period from 31 December 2011 to the date of approval of the consolidated financial statements on 22 May 2012.

On 20 January 2012 the Group entered into non-cash credit line agreement in amount of US$3,000,000 for letter of credits with Yapi Kredi Bank Azerbaijan. A pledge agreement was signed with Yapi Kredi Bank Azerbaijan for guarantee of letters of credit opened under the above mentioned agreement. According to this pledge agreement, movable equipment for the amount of US$5,392,800 was pledged to guarantee letters of credit opened under the agreement.

On 11 April 2012 a loan agreement was signed with Yapi Kredi Bank Azerbaijan for US$3,000,000 with a one month maturity period at an interest rate of 10% per annum. The loan was fully repaid in May 2012.

On 23 April 2012 the Group submitted a Notice of Discovery for gold on its Ordubad Group of Mining Properties. 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 for approval.

On 25 April 2012 the Government approved the Development and Production Programme submitted for Gosha Mining Property.

An office in Baku in which Mr. Reza Vaziri has an indirect interest, which was pledged under the contract for a credit line with Bank Standard JSC, was released from the pledge in May 2012 due to the termination of the contract for the credit line and fulfilment of all obligations under this agreement.

On 3 April 2012 the Group announced a JORC-compliant Resource at Gedabek Mine.

On 10 May 2012 the Group announced that the Board had approved the construction of an agitation leaching plant with an expected cost of US$52 million. The Group is in the process of seeking approval from the Government.

On 18 May 2012, the Group announced that the IBA had provided funding of US$7.5 million as part of the funding required for the construction of the agitation leaching project. Interest will be charged on the loan at a rate of 12% per annum paid quarterly in arrears. The repayment of the loan will be in 12 equal quarterly instalments, with the first instalment payable two years from the date of draw down of funds.

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 2011 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 15, 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 2011;
- 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 2011.

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 May 2012

Company balance sheet
as at 31 December 2011

	Notes	2011 US$	2010 US$
Non-current assets			
Tangible assets	3	**34,490**	37,379
Investments	4	**1,325,007**	1,325,007
		1,359,497	1,362,386
Current assets			
Debtors – amounts falling due within one year	6	**21,967,675**	21,981,016
Cash at bank and in hand	7	**726,195**	3,134,465
		22,693,870	25,115,481
Creditors: trade creditors and accruals	8	**(987,700)**	(2,425,141)
Net current assets		**21,706,170**	22,690,340
Net assets		**23,065,667**	24,052,726
Share capital and reserves			
Called up share capital	10,11	**1,967,704**	1,957,424
Share premium account	11	**32,139,674**	32,101,124
Accumulated loss	11	**(11,041,711)**	(10,005,822)
Capital employed		**23,065,667**	24,052,726

These financial statements were approved by the Board of Directors on 22 May 2012 and were signed on its behalf by:

Reza Vaziri
Chief Executive

Notes to the Company financial statements

for the year ended 31 December 2011

1. Significant accounting policies and going concern

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.

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 22 May 2012.

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 tangible assets mainly represented by office and computer equipment are depreciated on a straight line basis over four 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$1,064,083 (2010: US$716,472).

Notes to the Company financial statements continued

for the year ended 31 December 2011

3. Tangible assets

	Office equipment US$
Cost	
As at 1 January 2011	80,246
Additions	14,639
As at 31 December 2011	**94,885**
Depreciation and Impairment	
As at 1 January 2011	(42,867)
Charge for the year	(17,528)
As at 31 December 2011	**(60,395)**
Net book value	
As at 31 December 2010	37,379
As at 31 December 2011	**34,490**

4. Investments

	Year ended 31 December 2011 US$	Year ended 31 December 2010 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 2011 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 2011 US$	Year ended 31 December 2010 US$
Amounts falling due within one year		
Prepayments	**73,968**	55,045
HMRC	**12,907**	3,602
Amounts owed by subsidiary undertakings	**21,880,800**	21,922,369
	21,967,675	21,981,016

7. Cash

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

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

8. Creditors

	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Amounts falling due within one year		
Trade creditors	**24,715**	42,175
Loan from Director	**—**	998,663
Accruals	**962,985**	1,384,303
	987,700	2,425,141

During 2011 the Company has repaid an outstanding loan from its Director Mr. Reza Vaziri totalling US$998,663.

9. Deferred taxation

	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
The elements of unrecognised deferred taxation are as follows:		
Tax losses	**1,373,532**	1,075,589
Unrecognised deferred tax asset	**1,373,532**	1,075,589

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

	2011		2010	
	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	**110,397,307**	**1,957,424**	108,945,949	1,934,363
At the end of the year	**111,047,307**	**1,967,704**	110,397,307	1,957,424

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 2011	1,957,424	32,101,124	(10,005,822)	24,052,726
Loss for the year	—	—	(1,064,083)	(1,064,083)
Share issue	10,280	38,550	—	48,830
Share-based payment	—	—	28,194	28,194
As at 31 December 2011	**1,967,704**	**32,139,674**	**(11,041,711)**	**23,065,667**

Shares issued during the year relate to those issued to Directors 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 26 to the consolidated financial statements.

13. Subsequent events

No significant events took place during the period after the balance sheet date.

14. Auditor's remuneration

The Company paid US$40,300 (2010: US$24,000) to its auditors in respect of the audit of the financial statements of the Company. Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of Anglo Asian Mining PLC because consolidated financial statements are prepared which are required to disclose such fees on a consolidated basis.

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