ANGLO ASIAN MINING PLC

The cash-generative gold producer

Anglo Asian Mining PLC

Annual report and accounts 2012

Anglo Asian Mining PLC is an AIM-listed, gold, copper and silver mining company with a portfolio of production and exploration assets in Azerbaijan.

The Company's extensive 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.

In this report

Highlights

For the year ended 31 December 2012

Overview

- Profit before tax of US$28.6 million (2011: US$31.6 million) on revenue of US$73.5 million (2011: US$83.8 million)
- Gross profit of US$36.1 million (2011: US$43.0 million)
- Operating cash flow before movement in working capital of US$40.3 million (2011: US$55.8 million)
- Solid production performance at flagship Gedabek gold-copper-silver mine in Azerbaijan in FY 2012
  - Total gold production of 50,215 ounces (2011: 57,068 ounces)
  - Gold sales of 42,557 ounces (2011: 49,304 ounces) completed at an average of US$1,666 per ounce (2011: US$1,573 per ounce)
  - Gold produced at an average cash operating cost of US$668 per ounce (2011: US$448 per ounce)
  - Silver doré production totalled 20,133 ounces (2011: 39,086 ounces)
  - Total copper concentrate produced 502 tonnes of copper, 98,158 ounces of silver and 86 ounces of gold (2011: 611 tonnes of copper, 134,240 ounces of silver and 200 ounces of gold)
  - Commenced development of new agitation leaching plant to improve gold recoveries which at the time of writing is in status of full operational commissioning
  - New agitation plant has been delivered on schedule and is expected to be US$7 million under the US$52 million budget and US$15 million below the available funding facility
  - Post year end, Q1 2013 gold production totalled 8,585 ounces – on target to produce circa 60,000 ounces for FY 2013
- Continuing defined exploration and development programme to increase life of mine at Gedabek
  - Upgraded JORC resource by 50% at Gedabek to over 1 million ounces in the Measured and Indicated categories in April 2012
  - Defined maiden JORC reserve estimate of 744,038 ounces of gold in June 2012
  - Focused on exploration upside potential at Gedabek: 28,872 metres of drilling completed – a JORC compliant ore reserve update report is planned to be completed in Q2 2013
- Continuing to develop Gosha Contract Area in Azerbaijan into a small, high grade underground gold mine – first production anticipated H1 2014
- Notice of Discovery for gold in 462 sq km Ordubad Contract Area – further exploration planned to advance project
- Net debt of US$28.3 million at 31 December 2012 (2011: US$3.2 million)

Profit before tax (million)

US$28.6

Gross profit (million)

US$36.1

Operating cash flow before movement in working capital (million)

US$40.3

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For the latest news and investor information, visit our website at **www.angloasianmining.com**

At a glance
Our operations

Our gold-copper-silver operations are located in Azerbaijan, which lies within the Tethyan Tectonic Belt, one of the world's most significant gold and copper bearing trends that extends from Pakistan to the Balkans, passing through Iran, Azerbaijan, Georgia and Turkey.

Anglo Asian's key operations span three Contract Areas in Azerbaijan covering 1,062 sq km. The Company also holds three additional Contract Areas covering 900 sq km in territories occupied by Armenia, which it hopes to develop when access is obtained.

Gedabek operations

The Company operates a gold, copper and silver mine in western Azerbaijan, which produced 50,215 ounces of gold in FY 2012.

Anglo Asian is currently building a new agitation leaching plant at Gedabek, which will complement the existing heap leach processing operation to help further improve the gold recoveries and production rates of the mine. Gedabek also has a SART processing facility which produces a copper concentrate.

Gosha operations

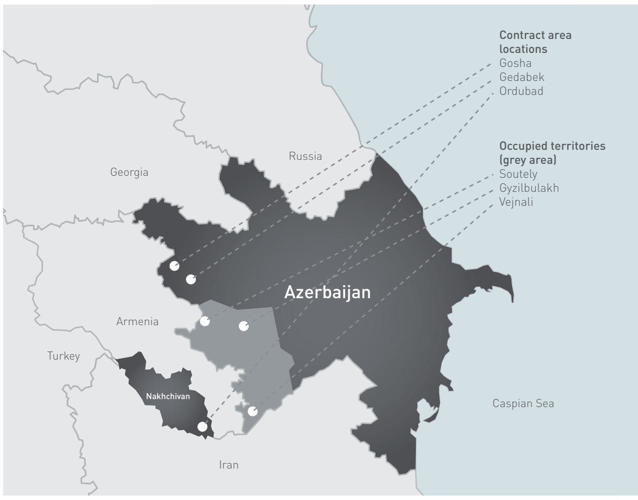
The 300 sq km Gosha Contract Area is situated 50 km north-west of Gedabek and contains at least nine mineralised zones.

Exploration work at Gosha is on-going aimed at defining new resources and developing a small underground mining operation by 2014.

Ordubad operations

The 462 sq km Ordubad Contract Area is in the Nakhchivan region and contains numerous targets.

Exploration activities are on-going at the Contract Area including a preliminary remote sensing study, adit cleaning and re-sampling of adits in two regions, Piyazbashi and Agyurt, and trenching and sampling in the Daste Bashi region.



Azerbaijan is situated in south-western Asia, bordering the Caspian Sea between Iran and Russia, with a small European portion north of the Caucasus range.

It borders Armenia, Georgia, Iran, Russia and Turkey and is split into two parts by Armenia; the smaller part is called the Autonomous Republic of Nakhchivan.

The country has an established democratic government, which is fully supportive of international investment initiatives. Infrastructure is reasonably extensive and as Azerbaijan is an oil producing country, diesel is cheap, which also results in low costs for explosives. Low cost labour is also available.

300 sq km
licence area

- Mining and exploration rights until March 2022
- Gedabek gold/copper/silver open pit mine
- US$52 million new agitation leaching plant in full scale commissioning stage - expected to be US$7 million under budget at US$45 million

50,215 oz
of gold produced

502 tonnes
of copper produced

1,276,422 oz
of gold resource

98,158 oz
of silver produced

744,038 oz
of gold reserves

300 sq km
licence area

- In November 2011 we submitted a development and production programme which was approved in April 2012
- Plans to start development of a small, high grade underground gold mine in H2 2013
- Production projected to be 15–20,000 ounces of gold per annum for five years

3,000 metres
of drilling

300 metres
of audit and sample work

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

Chairman's statement

Khosrow Zamani, Non-executive Chairman

"In terms of financial performance, we have enjoyed another period of profitability, driven by our gold doré and copper concentrate production at Gedabek."

Khosrow Zamani
Non-executive Chairman
24 May 2013

In summary

- We have been highly active developing and implementing plans to ensure the future growth of Anglo Asian
- We announced our intention to construct an agitation leaching plant at Gedabek, which is expected to both increase gold production and recovery and also reduce cash operating costs per ounce
- We have signed a sales agreement with Glencore International in Q4 2012, which will continue to positively impact our bottom line in FY 2013 when copper sales are realised
- At Gosha, exploration works at our Ordubad Contract Area resulted in the issuance of a notice of discovery for two gold deposits, Piyazbashi and Agyurt
- Work is currently under way to develop a second gold mine which is expected to produce circa 15–20,000 ounces of gold per annum

It gives me great pleasure to report on the progress Anglo Asian has made during this pivotal time in its development as a leading gold-copper-silver production company in Azerbaijan and indeed Caucasia. In FY 2012, we have continued to perform well as a highly profitable, low cost mining company, with a progressive portfolio of assets that includes our flagship Gedabek gold, copper and silver mine in western Azerbaijan ('Gedabek'), which produced 50,215 ounces of gold in FY 2012, a second development gold project, Gosha only 50 km away from Gedabek and a third gold exploration/development project, Ordubad, located in the Nakhchivan region of Azerbaijan.

In terms of financial performance, we have enjoyed another period of profitability, driven by our gold, silver doré and copper concentrate production at Gedabek. To this end, I am pleased to report that the Company recorded a profit before tax of US$28.6 million (2011: US$31.6 million) on revenues of US$73.5 million (2011: US$83.8 million) and a gross profit of US$36.1 million (2011: US$43.0 million).

During the period we have been highly active developing and implementing plans to ensure the future growth of Anglo Asian. These plans have been centred on: increasing the production at Gedabek to return gold production levels to 60,000 ounces for FY 2013, whilst lowering the production cash costs, which for the FY 2012 stand at US$668 per ounce of gold, to US$450–500 per ounce; increasing the life of mine of Gedabek through defined exploration and development programmes to increase the reserve and resource base, which currently stands at 744,038 ounces and 1,276,422 ounces of gold respectively; and establishing a secondary mining project, Gosha, which we are currently developing to increase our production by the end of 2014 to 80,000 to 90,000 ounces of gold. I believe the Anglo Asian team has delivered on numerous key objectives during 2012 with respect to these initiatives and it has laid the foundations for a transformational year for the Company in 2013 and beyond.

Gedabek, which is located in western Azerbaijan on the Tethyan Tectonic Belt, one of the world's significant copper and gold bearing belts, is currently an open pit, heap leach operation. In terms of gold and silver production for the reporting period, we were pleased to report figures in line with management's expectations of 50,215 ounces of gold and 20,133 ounces of silver in doré from the heap leach processing. From this we made gold sales of 42,557 ounces at an average price of US$1,666 per ounce and silver sales of 16,342 ounces at an average price of US$32 per ounce. The difference between sales and production is for two reasons. Firstly the Government of Azerbaijan takes title to 12.75% of all metals produced, according to the Product Sharing Agreement in place on Anglo Asian's operating licences (as outlined later in this statement), and secondly there is a time lag from production to sales. In terms of production in FY 2013, Q1 2013 gold production for the three months ending 31 March totalled 8,585 ounces with gold sales of 8,725 ounces at an average price of US$1,638 per ounce.

Importantly we also produce copper in the form of a precipitated copper sulphide concentrate by-product, which also contains silver and a small amount of gold, from our Sulphidisation, Acidification, Recycling and Thickening ('SART') plant at Gedabek. Interestingly this plant is one of the largest of its kind to be used on a commercial basis. Production from the plant for FY 2012 totalled 502 tonnes of copper, 98,158 ounces of silver and 86 ounces of gold. Income from sales of this copper concentrate totalled US$2.1 million in FY 2012. Towards the end of 2012, we entered into a sales contract with Glencore International plc ('Glencore') for the sale of 2,500 wet metric tonnes ('WMT') and 550 dry metric tonnes of copper concentrate and we also sent an additional trial shipment of 200 WMT of copper concentrate to Seagate Minerals and Metals Inc. At the end of 2012 stocks were 2,900 WMT. These sales will see our copper concentrate product continuing to add to our bottom line and in turn increasing our profitability for FY 2013. In Q1 2013 production from SART totalled 93 tonnes of copper, 9,875 ounces of silver and 16 ounces of gold and we had stockpiles of 2,535 WMT of copper concentrate product. We hope to arrange further sales contracts for copper concentrate in 2013 and look forward to providing future updates on this.

As mentioned, a key focus of 2012 for the Company was the review of Gedabek's operations with a view to implementing initiatives and development plans to improve the production profile of the mine both in the near-term, and increasing the life of mine to ensure its future production success. As highlighted, gold production for FY 2012 was 50,215 ounces, which was in line with management's expectations, but this was a drop from the previous year's production levels of 57,068 ounces in 2011. This decrease in production was anticipated in the 2012 Company mine plan, which took into consideration the reducing gold grade in the ore-body and the need for longer leaching cycles in the existing heap leaching process.

Having identified the key factors, the Company assessed different processing routes to improve the recovery of gold from the ore, over that achieved by the conventional heap leach process currently in use, in order to maximise the economic return. In May 2012, following a pre-feasibility study carried out by mining consultants, Arcadis Chile Limited, we announced our intention to construct an agitation leaching plant at Gedabek, which is expected to both increase gold production and recovery and also reduce cash operating costs per ounce. Construction of the new agitation leaching plant, which had a forecast CAPEX of US$52 million, began in August last year and the plant is now in the process of full scale commissioning and is expected to come in US$7 million under budget. The new plant will initially treat 100 tonnes of ore per hour and it will increase both gold oxide and sulphide recovery to 85% and 69% respectively. This is expected to positively impact gold production for the second half of 2013 to allow us to meet our 60,000 ounce production target (which represents a 20% increase over FY 2012). Gold production thereafter will improve on an on-going basis and the lower grade ore will continue to be heap leached.

In addition to improving processing efficiencies at Gedabek, we also continue to explore the greater Gedabek area with the aim of delineating further resources and reserves to increase the life of mine of the operation. In April 2012 we were delighted to announce a JORC compliant resource upgrade to 48,138,979 tonnes at 0.825 g/t gold for 1,276,422 ounces of gold in the Measured and Indicated categories. In addition, we also announced a maiden JORC compliant ore reserve report, which significantly exceeded our previous internal estimate of recoverable ounces of gold at Gedabek. A total mineable reserve of 20,312,879 tonnes at 1.139 g/t gold for 744,038 ounce, 0.293% copper for 59,479 tonnes and 9.456 g/t silver for 6,175,531 ounces as at 30 December 2011 was calculated, of which 532,607 ounces of gold are recoverable, a significant increase over the previous internal estimate of 311,000 ounces announced in 2007, prior to the construction of the Gedabek mine. Importantly, in addition to the 532,607 ounces of recoverable gold in the ground, we have an estimated 90,000 ounces of gold that was not recovered by the heap leach process, in the spent ore that is currently stacked on the leach pads. This ore will be reprocessed through the new agitation leach plant to recover the major part of this 'lost' gold and further boost production flow for FY 2013/4.

Since the announcement of our maiden reserve, an extensive 28,872 metre drilling programme has been completed, targeting an extension of the existing mine at Gedabek with the aim of further increasing the mineral resources and reserves as part of our on-going exploration and development programme. Early indications from the recent drilling indicates the potential to continue increasing the size of the Gedabek deposit in Q2 2013, and we look forward to updating the market on these results in due course.

Looking ahead, the Company is committed to establishing a second mining operation in Azerbaijan. As mentioned, Gosha is located 50 km away from Gedabek and work is currently under way to develop a small, high-grade, underground gold mine, which is expected to produce circa 15-20,000 ounces of gold per annum. Mining development at Gosha is targeted to begin in H2 2013 with the intention being to start production in 2014. Due to the close proximity of Gosha and Gedabek, it is intended that gold ore produced at Gosha will be sent by truck to Gedabek for processing through the new agitation leach plant. The input of ore from Gosha, in addition to the increased recoveries from the Gedabek ore achieved in the new plant, is expected to see Anglo Asian's total gold production rising to between 80,000 and 90,000 ounces by the end of 2014, subject to both the Gosha mine and the Gedabek Agitation Leaching Plant operating as expected.

Further exploration works at our Ordubad Contract Area, located in the Nakhchivan region of Azerbaijan, resulted in the issuance of a notice of discovery for two gold deposits, Piyazbashi and Agyurt. The Company will continue the exploration works to seek more mineral potential in the area.

In terms of our corporate activity for the period, we continue to work closely with the Government of Azerbaijan. As noted above, we have a Production Sharing Agreement in place with the Government of Azerbaijan, which is 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 2014 based on costs incurred to date and with the construction of the agitation leaching plant.

In addition, we have strong relations with the International Bank of Azerbaijan, which is majority owned by the Government of Azerbaijan, and we have various financing agreements in place with the bank. As at 31 December 2012, the Company's net debt totalled US$28.3 million (2011: US$3.2 million) after taking into account cash of US$2.4 million (2011: US$9.9 million). This increase in net debt was due to an additional loan agreement undertaken with the IBA by the Company to finance the new agitation leaching plant at Gedabek, which as mentioned had an estimated CAPEX of US$52 million and an expected actual cost of US$45 million. In May 2012, the IBA provided a US$7.5 million loan and agreed a further US$10.5 million loan with a letter of intent stating that, subject to internal consideration and approval, it would provide up to an additional US$42 million to the Company for the construction of the new agitation leaching plant. Including the US$18 million already agreed in May 2012, this brought the total funding available to the Company by the IBA to US$60 million.

Chairman's statement continued

The loans agreed during 2012 have an annual interest rate of 12% and can be drawn down in tranches of up to US$1,500,000. Repayment will be within 36 months in equal quarterly instalments starting two years from the date that each tranche of funds is drawn down. There is no penalty for early repayment.

As at 31 March 2013, the total funds drawn down from the IBA for the Agitation Leaching Plant from the $60 million facility were US$40.1 million. The remaining amount outstanding of the first loan with the IBA was US$0.8 million and cash in the bank was US$3.4 million. Net debt, being interest bearing loans and borrowings less cash and cash equivalents, therefore stood at US$37.5 million at 31 March 2013.

As a Company we are committed to maintaining high health, safety, social and environmental standards. We have a Health, Safety, Environment and Technology Committee ('HSET') established at Board level, which is under the chairmanship of Professor John Monhemius, one of our Non-executive Directors. This committee has the responsibility to oversee all aspects of the HSET of the Company and to make recommendations to the Board. Operational control of HSE is the responsibility of our Sustainability Manager, Mr Angel Vega, who has a team of HSE officers to police and encourage all safety aspects of day-to-day working practices on the mine.

During 2012 there were no serious work related injuries or reportable environmental incidents, and numerous safety and environmental initiatives were undertaken. We have approximately 566 personnel working in the Company. We achieved a landmark in our safety-at-work record by surpassing for the first time one million man-hours worked without a Lost Time Incident (LTI). Despite this achievement we recognise that mining is a hazardous environment and we will continue to strive for further improvements. In May 2012, we introduced a penalty scheme whereby infringements of safety regulations or codes of practice are penalised by fines that are deducted from offenders' wages. The scheme applies equally to Company employees and to contractors working on site.

Since becoming signatories to the International Cyanide Management Code in 2010, we have been working towards achieving the required safety standards in our working practices for the handling and management of cyanide, which is the principal chemical used for the leaching of gold ores. This has involved the preparation and translation of documentation and training courses for employees. We have appointed external auditors, who will assess our performance under the auspices of the International Cyanide Management Institute ('ICMI'). In September 2012, the auditor-carried out a pre-audit gap analysis, which highlighted areas that require further attention to achieve the required standards. The full audit will take place shortly, after which we expect to be granted full certification by the ICMI.

On the environmental side, we have undertaken a full Environmental and Social Assessment ('ESA') of our operations during this year. We appointed AMEC, a leading international engineering consultancy (http://www.amec.com), to perform this work for us. The ESA was a major exercise carried out over several months by a team of specialists from AMEC. We received their final report in December 2012, which comprised a main volume and 12 substantial appendices, and the task for the coming year is to incorporate the consultants' recommendations into our working practices and to develop a comprehensive environmental management plan for the life of the mine.

Looking at Anglo Asian in the wider market context, despite the economic turmoil in the market that all resource companies are facing at present, I remain positive about the longer term fundamentals for gold mining companies and indeed Anglo Asian. Gold has enjoyed a spectacular bull market over the past 13 years, growing at a compound annual growth rate of approximately 13% since the low gold price circa US$278 in 1999. In spite of recent gold pricing developments, which have seen gold price levels drop to circa US$1,350, I believe that there remains a convincing case for sustainable upside in the gold price based on gold as a hedge against inflation/currency depreciation, a 'safe haven' and store of value, and with continued robust physical demand from China and India projected. Moreover, similar corrections both mid-2006 and again in late-2008 when the gold price was hit, down more than 25% and 33% respectively, build a positive case for this recent drop being a 'correction' rather than a bearish gold market. At current levels gold equities do not seem to reflect current gold prices and mining companies are at their cheapest level in decades. I consider that gold equities, especially Anglo Asian, as a low cost producer still represent a compelling investment opportunity.

In conclusion, the past year has been one of significant progress for Anglo Asian on many fronts. We are delighted to report a strong financial performance with a profit before tax of US$28.6 million. This is thanks to reliable gold production from Gedabek, which has achieved our production target for FY 2012 by producing 50,215 ounces of gold and also 502 tonnes of copper concentrate for the year.

Looking ahead to 2013, we are committed to increasing Gedabek's gold production and we are in the final stages of constructing a new Agitation Leaching Plant, estimated to be US$7 million under budget at US$45 million, which will improve production from the mine substantially once commissioned and enable us to achieve FY 2013 production of 60,000 ounces. In terms of our copper production, we produced 93 tonnes of copper in Q1 2013 and expect to produce 700 tonnes by year-end in line with the 2013 production plan. Importantly we have signed a sales agreement with Glencore International in Q4 2012, which will continue to positively impact our bottom line in FY 2013 when copper sales are realised.

Furthermore, we remain dedicated to establishing our second mining project in Azerbaijan, Gosha, with a view to production in 2014, which will be another significant step for Anglo Asian as we look to ramp up our annual gold production output to 80,000–90,000 ounces by the end of 2014.

I believe that this development strategy, coupled with our low gold production cost forecasts for FY 2013, highlights our commitment to achieving significant growth and increasing value over the coming year.

I would like to take this opportunity to thank our Anglo Asian employees, partners, the Government of Azerbaijan, the IBA, advisers, fellow Directors and shareholders for their continued support as we continue to build ourselves into a leading gold, copper, silver mid-tier production company in Azerbaijan and Caucasia.

Khosrow Zamani
Non-executive Chairman

Chief Executive's review

"2012 has been a highly active year for Anglo Asian with gold production of 50,215 ounces and sales of 42,557 ounces, copper production 502 tonnes and copper concentrate sales of US$2.1 million and significant profitability of US$28.6 million for the year."

Reza Vaziri
President and Chief Executive
24 May 2013

In summary

- Gedabek's heap leach operation totalled 50,215 ounces (in gold doré) with an average cash operating cost of US$668 per ounce
- Silver production from the plant's heap leach operations, production totalled 20,133 ounces with 16,342 ounces of silver sold at an average price of US$32
- In terms of copper concentrate production, for FY 2012 we produced 502 tonnes of copper, 98,158 ounces of silver and 86 ounces of gold
- In June 2012, we announced a maiden JORC compliant ore reserve report, which showed a total mineable reserve of 20,312,879 tonnes of which 532,607 ounces of gold are recoverable
- A development work programme and budget was submitted to the Government of Azerbaijan on 4 December 2012 aiming to commence development work at Gosha in H2 2013 with a view to moving to production by 2014

During the course of 2012 we continued to focus on developing and implementing plans to ensure the future growth of Anglo Asian in line with our long term strategy of building a multi-site gold, copper and silver mining company in Caucasia and in turn unlocking the Company's intrinsic value.

Our 1,962 sq km portfolio of prospective gold/copper/silver assets in Azerbaijan includes our flagship Gedabek mine, which produced 50,215 ounces of gold in FY 2012, our Gosha Contract Area, which is located 50 km away from Gedabek, and Ordubad, which is located in the Nakchivan Republic region of Azerbaijan.

Mining operations

Gedabek

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

For the 12 month period to 31 December 2012, gold production from Gedabek's heap leach operation totalled 50,215 ounces (in gold doré) with an average cash operating cost of US$668 per ounce. In terms of gold sales, 42,557 ounces of gold were sold at an average of US$1,666 per ounce in FY 2012. It should be noted that 6,246 ounces of gold were transferred to the Government of Azerbaijan as part of the Company's Product Sharing Agreement in FY 2012.

Table 1 below is a summary table of gold production and prices which outlines quarter-on-quarter gold production at Gedabek for FY 2012.

With regards to silver production from the plant's heap leach operations, production totalled 20,133 ounces with 16,342 ounces of silver sold at an average price of US$32.

In terms of processing, Gedabek's heap leach stacking operation has performed in line with management's expectations in FY 2012 with 753,601 tonnes of dry ore having been transferred to the leach pads with an average gold content of 3.03 g/t (2011: 842,751 tonnes of dry ore with an average gold content of 4.33 g/t). The reduced grade for the period was in line with our mining plan. Table 2 summaries the levels of dry ore that have been transferred to the leach pads at Gedabek on a quarterly basis from 1 January 2012 to 31 December 2012.

Table 1

Quarter ended	Gold produced (including Govt. of Azerbaijan's share) (oz)	Weighted average gold sale price (US$)
31 March 2012	9,925	1,679
30 June 2012	11,716	1,609
30 September 2012	14,044	1,655
31 December 2012	14,530	1,694
Total for FY 2012	**50,215**	**1,666**

Chief Executive's review continued

Mining operations continued

Gedabek continued

Gedabek is currently an open pit mining operation, which utilises a conventional heap leach process and a resin adsorption recovery plant. Heap leach operations are traditionally a low-cost processing route that many mining operations, including Gedabek, adopt when they first move into production due to the low-capital construction costs. Whilst our heap leach operation has seen steady gold production at Gedabek from the first gold pour in May 2009 (to end of FY 2012 185,912 ounces have been produced), heap leaching has limitations with regards to the size of ore being leached (-25 mm). This limitation results in gold recoveries of circa 70%, with leaching cycles extending typically up to a year, depending on the ore mineralogy.

With the above in mind, we conducted a review to best ascertain how to improve the gold production profile of Gedabek. In May 2012, following a Pre-Feasibility Study carried out by mining consultants, Arcadis Chile Limited, we announced our intention to construct an agitation leaching plant at Gedabek. In comparison to heap leaching, agitation leaching of milled ore can deliver higher recoveries, with the immediate production of gold. The new agitation leaching plant will process high grade oxide ore and additional sulphidic ore resources that are not suitable for Gedabek's current heap leaching 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 we are carrying out additional testing to see if these recovery rates can be further improved. The plant, which will have a capacity to treat 100 tonnes per hour of ore, is anticipated to be commissioned in H1 2013 and had an estimated capital cost of US$52 million, including construction of the tailings dam and all related infrastructure. It is believed that the cost of construction of the agitation leaching plant is circa US$7 million under budget.

In addition to gold and silver, our Gedabek operation also produces a copper concentrate from a Sulphidisation, Acidification, Recycling and Thickening ('SART') process, which recovers copper in the form of a precipitated copper sulphide concentrate containing silver and minor amounts of gold. The recovery of copper and silver through SART is in the region of 90% and 96%, respectively, and the process also has the economic benefit of recovering cyanide from the leach solutions. In terms of copper concentrate production, for FY 2012 we produced 502 tonnes of copper, 98,158 ounces of silver and 86 ounces of gold (2010: 611 tonnes of copper, 134,240 ounces of silver and 200 ounces of gold).

See table 3 overleaf for a full quarterly breakdown of copper concentrate production through SART.

During FY 2012 total sales of copper concentrate were US$2.1 million. We also signed a sales contract in Q4 2012 with Glencore International plc ('Glencore') for the sale of 2,500 wet metric tonnes ('WMT') and 550 dry metric tonnes of copper concentrate. Under the terms of the agreement, which is already underway, Glencore is committed to purchase 250 WMT per month of copper concentrate product with an option to stop buying at 1,500 WMT. Anglo Asian is now intending to arrange further sales contracts for its copper concentrate stockpiles, which totalled 2,900 WMT at 31 December 2012.

Gedabek Exploration

Increasing Gedabek's production profile and life of mine through defined exploration programmes continued to be a priority for the Company during 2012. At the beginning of the year Gedabek's resource stood at 791,000 ounces of gold, 49,300 tonnes of copper and 7,597,000 ounces of silver for all categories. After completing 14,510 metres of drilling (2010–2011 two-phased drilling programme) in April 2012, we were delighted to announce a JORC resource upgrade of 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. The new resource statement also took into consideration the information of the 2006 exploration drilling campaign, which consisted of an additional 20,426 metres of drilling at Gedabek.

Using these new resource figures, we instructed our mining consultants, CAE Mining International Ltd, to update the ore reserves estimation of the Gedabek Mineral Deposit. In June 2012, we announced a maiden JORC compliant ore reserve report, which showed a total mineable reserve of 20,312,879 tonnes at 1.139 g/t gold for 744,038 ounces, 0.293% copper for 59,479 tonnes and 9.456 g/t silver for 6,175,531 ounces as at 30 December 2011, of which 532,607 ounces of gold are recoverable, a significant increase over the previous internal estimate of 311,000 ounces announced in 2007, prior to the start of construction of the Gedabek mine.

The ultimate optimal open pit ore reserve was estimated by applying the Lerchs-Grossman open pit optimisation algorithm and taking into consideration an extensive sensitivity analysis of several technical and economic scenarios.

The updated ore reserves estimation was based on a cut-off grade of 0.3 g/t of gold

Table 2

Quarter ended	Dry ore transferred to the leach pad (tonnes)	Average grade (g/t)
31 March 2012	144,526	2.83
30 June 2012	194,969	3.25
30 September 2012	204,720	2.93
31 December 2012	209,386	3.07
Total for FY 2012	**753,601**	**3.03**

and considered the following mineral processing options for the extraction of gold, copper and silver from the mineral resource: heap leaching for oxide mineralisation at 0.3 ⩽ Au g/t < 1.0; agitation leaching for oxide mineralisation at 1.0 ⩽ Au g/t < ∞ and sulphide mineralisation at 1.0 ⩽ Au g/t < ∞; and flotation for sulphide mineralisation at 0.3 ⩽ Au g/t < 1.0. In addition, the updated ore reserves were constrained with the open pit surface topography as on 30 December 2011.

The updated Proved and Probable ore reserves estimations are described in table 4 below.

The ore will be recovered through a combination of the existing heap leaching operation at Gedabek, the new agitation leaching plant and a flotation plant which we plan to construct later in the life of the mine.

It must also be noted that the total ore reserve statement accounts for ore in the ground at 30 December 2011 and does not account for ore that has already been mined and which is currently stacked on the leach pads. The ore on the leach pads still contains circa 90,000 ounces of gold, which the Company will either recover through the on-going heap leaching process, or by reprocessing the spent ore in the heaps through the agitation leaching plant.

An additional 28,872 metre drilling programme has also been completed in 2012 which has targeted an extension of the existing mine at Gedabek with the aim of further increasing the mineral reserves and resources in 2013, as part of our on-going exploration and development programme. Recent drilling indicates significant potential to continue increasing the size of the Gedabek resource and we look forward to updating the market on these results in due course.

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 in May 2012, it is our intention to develop a small, high grade, underground gold mine at Gosha producing gold at an average rate of 15,000 to 20,000 ounces per annum for a period of at least five years.

A development work programme and budget was submitted to the Government of Azerbaijan on 4 December 2012 aiming to commence development work at Gosha in H2 2013 with a view to moving to production by 2014, whilst at the same time implementing further drilling campaigns in order to increase the economics of the proposed mine at Gosha. Mining equipment has been ordered and service and infrastructure building work is to commence in H2 2013, including access roads, workshop, offices, a laboratory and building upgrade work. The mine production programme starting in H2 2013 will develop 1,975 metres of production and haulage galleries to produce 30,000 tonnes of ore, with an average grade of 15.6 g/t of gold and 38.6 g/t of silver, together with 35,500 tonnes of waste.

Studies have been conducted to determine different mining plan alternatives and these have shown that high grade ore can be produced from the mine and transported and treated in the agitation leach plant at Gedabek until 2015. It is envisaged that from 2016 onwards, the ore from Gosha mine may be processed in a flotation plant at Gosha.

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.

We were pleased to report a Notice of Discovery for gold at Ordubad in April 2012. The Notice of Discovery is a requirement set out in the Company's Production Share Agreement ('PSA'), which needs to be in place before the technical and economical evaluation of a deposit in terms of a Development and Production Programme can take place. We plan to release further information concerning the results of the studies and exploration work in due course and further exploration work is now planned with a view to confirming a small gold deposit with production potential.

Table 3

Quarter ended	Copper concentrate produced (dry tonnes)	Copper recovered (tonnes)	Silver produced (oz)	Gold produced (oz)
31 March 2012	239	148	34,666	27
30 June 2012	162	106	25,853	9
30 September 2012	199	132	23,397	36
31 December 2012	181	116	14,242	14
Total for FY 2012	**781**	**502**	**98,158**	**86**

Table 4

	Tonnage	Grades			Products			Recovered products		
Classification	Ore t	Au g/t	Cu %	Ag g/t	Au oz	Cu t	Au oz	Au oz	Cu t	Ag oz
Proved ore reserves	15,586,952	1.172	0.285	9.203	587,099	44,389	4,611,806	410,623	8,560	1,089,474
Probable ore reserves	4,725,928	1.033	0.319	10.292	156,939	15,091	1,563,725	121,984	2,745	621,601
Proved and probable ore reserves	20,312,879	1.139	0.293	9.456	744,038	59,479	6,175,531	532,607	11,305	1,711,075

> "With mining development at Gosha due to begin in H2 2013 and production targeted for 2014, we envisage we should become an 80,000–90,000 ounces per annum gold producer by the end of 2014."

Outlook

2012 has been a highly active year for Anglo Asian with gold production of 50,215 ounces and sales of 42,557 ounces, copper production 502 tonnes and copper concentrate sales of US$2.1 million and significant profitability of US$28.6 million for the year. Gold production at the beginning of 2013 remains on target and with the agitation leaching plant near completion and due to be commissioned in H1 2013 (on time and US$7 million under budget), gold production for FY 2013 is targeted for 60,000 ounces, a 20% increase from FY 2012. Not only will the agitation leaching plant help to improve gold recoveries and production, it will also lead to decreased cash operating costs of around US$450–500, which would place Anglo Asian in the lower quartile of gold mining companies in terms of operating costs. In the meantime, exploration at Gedabek has been on-going and significant progress in terms of extending the life of mine at Gedabek by increasing the resource and reserve base has been made. We also remain highly active at our Gosha gold project, which provides us with further exploration upside and, importantly, production potential for the future. With mining development at Gosha due to begin in H2 2013 and production targeted for 2014, we envisage we should become an 80,000–90,000 ounces per annum gold producer by the end of 2014. With the above in mind we look forward to the coming year at this exciting time in the Company's development as a mid-tier gold, copper and silver mining company.

Reza Vaziri
President and Chief Executive

Our new agitation leaching plant

At Gedabek

"Substantially increasing gold production at Gedabek with a capital reduction."

Strategy: Improving gold production profile of Gedabek

Continuing to improve the gold production profile of the Company's flagship Gedabek mine in western Azerbaijan remains a key focus for Anglo Asian. In FY 2012, gold production from this open pit mine totalled 50,215 ounces which was achieved by processing ore through its conventional heap leach processing unit. Whilst gold production was in line with management's expectations for 2012, gold production had in fact reduced from 2011 production levels of 57,068 ounces, largely due to the reducing gold grade in the ore-body, which was anticipated, and the need for longer leaching cycles in the existing heap leaching process at Gedabek.

Gedabek is currently an open pit mining operation, which utilises a conventional heap leach process and a resin adsorption recovery plant. Heap leach operations are traditionally a low-cost processing route that many mining operations, including Gedabek, adopt when they first move into production due to the low-capital construction costs.

In order to help maximise the gold recovery of the lowering grade ore and in turn increase the economic return of Gedabek over that achieved by only utilising the conventional heap leach process, the Company undertook a review of its mining operations at the beginning of 2012 and assessed different processing routes.

Agitation leaching plant – Pre-Feasibility Study

In May 2012, following a Pre-Feasibility Study carried out by mining consultants, Arcadis Chile Limited, Anglo Asian announced its intention to construct an agitation leaching plant which is expected to increase gold production and recovery and also reduce cash operating costs to circa US$450 per ounce of gold. In comparison to heap leaching, agitation leaching of milled ore can deliver higher recoveries with the immediate production of gold.

The new agitation leaching plant will process high grade oxide ore and additional sulphidic ore 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 has been carrying out additional testing to see if these recovery rates can be further improved. The plant, which will have a capacity to treat 100 tonnes per hour of ore, is currently being commissioned. This should positively impact gold production for the second half of 2013 to allow us to meet our 60,000 ounces production target (which represents a 20% increase from FY 2012). Gold production thereafter will improve on an on-going basis and the lower grade ore will continue to be heap leached.

Construction process and future capabilities

Construction of the new agitation leaching plant, which had a forecast CAPEX of US$52 million, began in August 2012 and the plant is now in full scale commissioning and is expected to be US$7 million under budget.

Looking ahead, the Company is committed to establishing a second mining operation in Azerbaijan. Gosha, Anglo Asian's second gold project, is located 50 km away from Gedabek and work is currently under way to develop a small, high-grade, underground gold mine, which is expected to produce circa 15–20,000 ounces of gold per annum. Mining development at Gosha is targeted to begin in H2 2013 with the intention being to start production in 2014. Due to the close proximity of Gosha and Gedabek, it is intended that gold ore produced at Gosha will be sent by truck to Gedabek for processing through the new agitation leach plant. The input of ore from Gosha, in addition to the increased recoveries from the Gedabek ore achieved in the new plant, is expected to see Anglo Asian's total gold production rising to between 80,000 and 90,000 ounces by the end of 2014, subject to both the Gosha mine and the Gedabek agitation leaching plant operating as expected.

Financial review

Sean Duffy, Chief Financial Officer

"I am pleased to report that in 2012 Anglo Asian generated revenues of US$73,521,389 (2011: $83,753,311) as a result of gold, silver and copper concentrate sales from the Gedabek mine."

Sean Duffy
Chief Financial Officer
24 May 2013

In summary

- US$71,446,844 of the revenues (2011: US$78,756,649) were generated from the sale of Anglo Asian's share of the production of doré bars for the year
- Net assets of the Group were US$96,369,154 (2011: US$76,867,936)
- The Group reported a gross profit of US$36,076,012 for 2012 (2011: US$43,036,199)
- During 2012, the Group reduced its original loan with IBA from US$13.1 million to US$1.8 million

Introduction

I am pleased to report that in 2012 Anglo Asian generated revenues of US$73,521,389 (2011: $83,753,311) as a result of gold, silver and copper concentrate sales from the Gedabek mine.

US$71,446,844 of the revenues (2011: US$78,756,649) were generated from the sale of Anglo Asian's share of the production of doré bars for the year, which comprised 42,557 ounces of gold and 16,342 ounces of silver (2011: 49,304 ounces of gold and 34,593 ounces of silver) at an average price of US$1,666 per ounce and US$32 per ounce respectively (2011: US$1,573 per ounce and US$35 per ounce). In addition, Anglo Asian generated revenue from the sale of copper concentrate of US$2,074,545 (2011: US$4,996,662).

The Group incurred mining cost of sales of US$37,445,377 (2011: US$40,717,112) and therefore reported a gross profit of US$36,076,012 for 2012 (2011: US$43,036,199).

The Group incurred administration expenses of US$5,915,352 (2011: US$6,021,274) and finance costs for the year of US$1,510,085 (2011: US$3,270,909). The Group recorded profit before tax for the year of US$28,550,979 (2011: US$31,623,383). The finance costs for the year comprises interest on the credit facilities and loans, interest on letters of credit and accretion expenses on the rehabilitation provision.

During 2012, the Group reduced its original loan with IBA from US$13.1 million to US$1.8 million.

During 2012, additional funds drawn down from the IBA for the Agitation Leaching Plant were US$29.3 million at 31 December 2012.

Total debt at 31 December 2012 stands at US$30,759,749 (2011: US$13,041,000) all due to IBA.

The Group held cash balances at 31 December 2012 of US$2,410,730 (2011: US$9,938,594) and inventories at cost of US$36,427,632 (2011: US$27,301,183).

Net assets of the Group were US$96,369,154 (2011: US$76,867,936).

During the year exploration and evaluation expenditure of US$1,415,766 (2011: US$4,956,336) was incurred and capitalised.

The Group paid corporation tax during the year of US$2,593,713 (2011: US$4,834,145). The Company has booked a deferred tax liability of US$6,883,330 in 2012 (2011: US$7,900,635) bringing the total deferred tax liability provision to US$19,344,899 (2011: US$12,461,569).

Production Sharing Agreement ('PSA')

Under the terms of the PSA in place with the Government of Azerbaijan, the Company and the Government of Azerbaijan share commercial products of each mine. Until the time Anglo Asian has recovered all its carried forward, unrecovered costs, the Government of Azerbaijan effectively takes 12.75% of commercial products of each mine, with the Company taking 87.25% (being 75% for capital and operating costs plus 49% of the remaining 25% balance). The Company expects that it will not have recovered all its brought forward capital and operating costs by the end of 2013 and that the ratio of sharing commercial products for Gedabek mine of 87.25% to Anglo Asian and 12.75% to the Government of Azerbaijan will continue throughout 2013 and 2014.

The Company can continue with prior and current period 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
- An imputed interest rate of USD LIBOR + 4% per annum on any unrecovered costs

Once Gosha is operating and producing revenue, all Gosha specific costs can also be recovered.

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 to 30 June 2014 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 608,956 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 2013, the Group then 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 reviews this exposure and the requirement for hedging activities on an on-going basis.

Foreign currency risk

The Group reports in US Dollars and a large proportion of its business is conducted in US Dollars. It also conducts business in Australian Dollars, Azerbaijan Manats and UK Sterling. The Group does not currently hedge its exposure to other currencies although it will review this periodically if the volume of non US Dollar transactions increases significantly.

Liquidity/interest rate risk

The Group has not used any interest rate swaps or other instruments to manage its interest rate profile during 2012 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 risk 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.

Sean Duffy
Chief Financial Officer

Board of Directors

Mr. Khosrow Zamani

Non-executive Chairman, Age 70

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 an MSc in Engineering from the USA and a Master of Business Operations and Management from the UK. He is currently a non-executive board member and chairman of the Corporate Governance Committee of Sekerbank A.S., a publicly listed commercial bank in Turkey, a non-executive board member and chairman of the compensation committee of Komercijalna Bank, Serbia and a non-executive board member of Borusan Makina in Turkey.

Mr. Reza Vaziri

President and Chief Executive, Age 60

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 55

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 73

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 70

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 2012.

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 39) 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 to 6, the Chief Executive's Review on pages 7 to 10 and the Finance Review on pages 12 to 13.

The Group's net profit after taxation for the year ended 31 December 2012 amounted to US$19,367,245 (2011: US$18,772,459).

Business Review

A business overview is discussed on pages 4 and 6 of the Chairman's Statement. Other risks are discussed in the Finance Review on page 13.

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 14.

Directors' interests

The Directors in office during the year and their interests in ordinary shares of the Company at 31 December 2012 and 31 December 2011 were:

Directors	**31 December 2012 Number of shares**	31 December 2011 Number of shares
Khosrow Zamani	**793,184**	793,184
Reza Vaziri	**32,796,830**	32,796,830
Richard Round	**153,958**	153,958
John Sununu	**10,674,540**	10,674,540
John Monhemius	**55,556**	55,556

A total of 350,000 (2011: 100,000) shares were issued during the year to the employees and nil (2011: 550,000) shares were issued to Directors as a result of options exercised, bringing the total number of ordinary shares with voting rights to 111,397,307 at 31 December 2012 (2011: 111,047,307).

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 2012	Granted during the year	Exercised during the year	Forfeited in the year	Lapsed in the year	**As at 31 December 2012**
Directors								
Khosrow Zamani	16.5	1 June 2017	100,000	—	—	—	—	**100,000**
	12.0	27 July 2017	500,000	—	—	—	—	**500,000**
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	150,000	—	(150,000)	—	—	**—**
	35.4	19 October 2021	225,000	—	—	—	—	**225,000**
	45.5	27 September 2022	—	350,000	—	—	—	**350,000**
			3,101,684	350,000	(350,000)	—	—	**3,101,684**

All options can be exercised at various dates up to 27 September 2022.

Directors' report continued

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.

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 31 December 2014 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 to 6 and the Chief Executive's Review on pages 7 to 10. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 12 to 13. 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.

Though the gold prices dropped significantly after 31 December 2012, the Group is still operating in favourable market conditions and 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 dates in 2011 and 2012 and for the purpose of the new production plant construction the Group has an available credit line with the same financial institution. 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 (2011: US$nil).

Research and development
There were no research and development expenses incurred during the year (2011: US$nil).

All exploration related activities are disclosed in note 13 to the consolidated financial statements.

Substantial and significant shareholdings
As at 23 May 2013 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	29.44
Khagani Bashirov	18,087,758	16.24
John Sununu	10,674,540	9.58
Limelight Industrial Developments Limited	4,038,600	3.63

The number of shares in issue at this date was 111,397,307.

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 (2011: 15).

Financial instruments
Financial instruments are disclosed in note 23 to the consolidated financial statements.

Disclosure of information to auditor
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 auditor is 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 auditor is aware of that information.

Annual General Meeting
The Company will hold its next Annual General Meeting on 28 June 2013 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.

Auditor
Ernst & Young LLP were appointed as auditor of the Company for the year ended 31 December 2012. Ernst & Young LLP have expressed their willingness to continue in office as auditor 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 UK Corporate Governance code is set out on page 18.

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

Sean Duffy
Company Secretary
24 May 2013

Corporate governance

Introduction
Although the rules of AIM do not require the Company to comply with the UK Corporate Governance Code ('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 complies with the Code.

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

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

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

Audit Committee
The Board has an Audit Committee which comprises Richard Round and John Sununu and is scheduled to meet at least twice a year. The external auditor attends 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 auditor of the Group.

Remuneration Committee
The Board has a Remuneration Committee which comprises Khosrow Zamani and John Sununu and meets as required. It is the Remuneration Committee's role to establish a formal and transparent policy on Executive remuneration and to set remuneration packages for individual Directors.

Nomination Committee
The Board has a Nomination Committee which comprises Khosrow Zamani and John Sununu. It is the role of the Nomination Committee to review and consider the Board structure and composition and it meets as required to consider and make recommendations on the appointment of Directors to the Board.

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

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

Shareholder relations
The Company meets with its institutional shareholders and analysts as appropriate and encourages communication with private shareholders via the Annual General Meeting ('AGM'). In addition, the Company uses the annual report and accounts, interim statement and website (www.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 auditor.

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 2012 which comprise the consolidated statement of financial position as at 31 December 2012 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 17, 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 2012 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 2012.

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 May 2013

1. The maintenance and integrity of the Anglo Asian Mining PLC website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts 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 2012

	Notes	**Year ended 31 December 2012 US$**	Year ended 31 December 2011 US$
Revenue	5	**73,521,389**	83,753,311
Cost of sales		**(37,445,377)**	(40,717,112)
Gross profit		**36,076,012**	43,036,199
Other income	6	**423,386**	1,049,579
Administrative expenses		**(5,915,352)**	(6,021,274)
Other operating expense	6	**(759,420)**	(3,221,212)
Operating profit	7	**29,824,626**	34,843,292
Finance income	5	**236,438**	51,000
Finance costs	10	**(1,510,085)**	(3,270,909)
Profit before tax		**28,550,979**	31,623,383
Income tax expense	11	**(9,183,734)**	(12,850,924)
Profit for the period attributable to the equity holders of the parent		**19,367,245**	18,772,459
Earnings per share for the period attributable to the equity holders of the parent			
Basic earnings per share (cents per share)	12	**17.41**	16.91
Diluted earnings per share (cents per share)	12	**17.26**	16.47

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Profit for the year	**19,367,245**	18,772,459
Total comprehensive income for the year	**19,367,245**	18,772,459
Attributable to the equity holders of the parent	**19,367,245**	18,772,459

Consolidated statement of financial position
as at 31 December 2012

	Notes	**As at 31 December 2012 US$**	As at 31 December 2011 US$
Non-current assets			
Intangible assets	13	**22,828,092**	28,837,939
Property, plant and equipment	14	**87,877,035**	43,549,670
Non-current prepayments	15	**2,683,673**	292,290
		113,388,800	72,679,899
Current assets			
Trade receivables and other assets	17	**10,482,147**	3,770,996
Inventories	18	**36,427,632**	27,301,183
Cash and cash equivalents	19	**2,410,730**	9,938,594
		49,320,509	41,010,773
Total assets		**162,709,309**	113,690,672
Current liabilities			
Trade and other payables	20	**(11,612,591)**	(8,807,760)
Interest-bearing loans and borrowings	21	**(1,820,999)**	(11,307,412)
		(13,433,590)	(20,115,172)
Net current assets		**35,886,919**	20,895,601
Non-current liabilities			
Provision for rehabilitation	22	**(4,622,916)**	(2,424,995)
Interest-bearing loans and borrowings	21	**(28,938,750)**	(1,821,000)
Deferred tax liability	11	**(19,344,899)**	(12,461,569)
		(52,906,565)	(16,707,564)
Total liabilities		**(66,340,155)**	(36,822,736)
Net assets		**96,369,154**	76,867,936
Equity			
Share capital	24	**1,973,129**	1,967,704
Share premium account		**32,172,575**	32,139,674
Share-based payment reserve		**731,870**	648,789
Merger reserve	24	**46,206,390**	46,206,390
Retained earnings/accumulated loss		**15,285,190**	(4,094,621)
Total equity		**96,369,154**	76,867,936

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 24 May 2013. They were signed on its behalf by:

Reza Vaziri
Chief Executive

Consolidated cash flow statement

for the year ended 31 December 2012

	Notes	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Net cash provided by operating activities	25	**24,917,609**	38,024,397
Investing activities			
Expenditure on property, plant and equipment and mine development		**(46,918,313)**	(7,739,793)
Investment in exploration and evaluation assets including other intangible assets		**(1,645,147)**	(5,069,388)
Interest received		**147,400**	51,000
Net cash used in investing activities		**(48,416,060)**	(12,758,181)
Financing activities			
Purchase of share options		**38,326**	65,028
Proceeds from borrowings	21	**29,326,689**	—
Repayments of borrowings	21	**(11,220,000)**	(17,586,663)
Interest paid		**(2,174,428)**	(2,916,838)
Net cash provided/(used) in financing activities		**15,970,587**	(20,438,473)
Net decrease/(increase) in cash and cash equivalents		**(7,527,864)**	4,827,743
Cash and cash equivalents at the beginning of the year	19	**9,938,594**	5,110,851
Cash and cash equivalents at the end of the year	19	**2,410,730**	9,938,594

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Notes	Share capital US$	Share premium US$	Share-based payment reserve US$	Merger reserve US$	Retained earnings/ accumulated loss US$	Total equity US$
At 1 January 2011		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	26	—	—	(17,782)	—	17,782	—
Share-based payment charge during 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
Profit for the year		—	—	—	—	19,367,245	19,367,245
Total comprehensive income		—	—	—	—	19,367,245	19,367,245
Shares issued	24	5,425	32,901	—	—	—	38,326
Options exercised during the year	26	—	—	(12,566)	—	12,566	—
Share-based payment charge during the year	26	—	—	95,647	—	—	95,647
At 31 December 2012		**1,973,129**	**32,172,575**	**731,870**	**46,206,390**	**15,285,190**	**96,369,154**

Notes to the consolidated financial statements

for the year ended 31 December 2012

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 2014 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.

More details in relation to the Group's going concern assessment are given in the respective section of the Directors' Report.

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 15 to 17.

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 24 May 2013. These consolidated financial statements, for the year ended 31 December 2012 and 31 December 2011, 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 amendment to the standards adopted by the Group on 1 January 2012:

IAS 12 'Income Taxes' (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

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 1 'First-Time Adoption of International Financial Reporting Standards' (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters; and
- IFRS 7 'Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements'.

New standards and amendments issued, but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below are those that the Group reasonably expects will 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 28 'Investments in Associates and Joint Ventures' (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 'Investments in Associates and Joint Ventures' and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment will have no impact on the Group. The revised standard is effective for annual periods beginning on or after 1 January 2013.

3. Significant accounting policies continued

New standards and amendments issued, but not yet effective continued

IFRS 10 'Consolidated Financial Statements', IAS 27 'Separate Financial Statements'

IFRS 10 replaces the portion of IAS 27 'Consolidated and Separate Financial Statements' that addresses the accounting for consolidated financial statements. It also addresses the issues covered in SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including structured entities (previously referred to as special purpose entities). The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the investments currently held by the Group. This standard is effective for annual periods beginning on or after 1 January 2014.

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 2014. 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 includes all of the disclosures that were previously in IAS 27 relating to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but will have no impact on the Group's financial position or performance. This standard is effective for annual periods beginning on or after 1 January 2014.

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, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The Group is currently assessing the impact that this standard will have on the financial position and performance. This interpretation is effective for annual periods beginning on or after 1 January 2013.

Annual improvements May 2012

These improvements include:

IAS 1 'Presentation of Financial Statements': clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

IAS 16 'Property Plant and Equipment': clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 'Financial Instruments': Presentation: clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 'Income Taxes'.

The Group expects no impact on its financial position, performance, disclosures or stated accounting policies from the adoption of these amendments. The improvements are 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.

The estimates of recoverable reserves have been revised from 1 January 2012 and resulted in an increase of the recoverable gold reserves to 609,000 ounces (2011: 244,000 ounces). Including stockpiles and gold in process.

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 on-going 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.

3. Significant accounting policies continued

Significant accounting judgements, estimates and assumptions continued

Contingencies

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

Mine rehabilitation provision (note 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.

3. Significant accounting policies continued

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 2012 and 2011.

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.

3. Significant accounting policies continued

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.

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.

3. Significant accounting policies continued

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 mine' 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.

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).

3. Significant accounting policies continued

Impairment of tangible and intangible assets continued

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.

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.

3. Significant accounting policies continued

Financial assets continued

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;
- 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 asset's original effective interest rate.

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.

3. Significant accounting policies continued

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 and site administration costs; and allocated indirect costs, including depreciation, depletion and amortisation of producing mines and mining interests.

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

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

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

Equity instruments

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

Deferred stripping costs

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

Stripping costs incurred subsequently during the production stage of its operation are deferred for those operations where this is the most appropriate basis for matching the cost against the related economic benefits and the effect is material. This is generally the case where there are fluctuations in stripping costs over the life of the mine. The amount of stripping costs deferred is based on the strip ratio obtained by dividing the tonnage of waste mined either by the quantity of ore mined or by the quantity of minerals contained in the ore. Stripping costs incurred in the period are deferred to the extent that the current period ratio exceeds the life of the mine strip ratio. Such deferred costs are then charged to the 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

4. Segment information

The Group determines and presents operating segments based on the information that is internally provided to the Group's chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors that makes the strategic decisions. The Board currently considers the business from a consolidated perspective and reviews the business based on the operating and exploration assets of the Group.

Based on how the business is reviewed the Group has two segments: mining operations and exploration sites. Both segments are located within the Republic of Azerbaijan. The mining operations segment is made of the Group's only producing asset, Gedabek, which accounts for all the Group's revenues, cost of sales and depreciation/amortisation.

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 & Metals Inc and Glencore Xstrata International AG.

Year ended 31 December 2012	Mining operations US$	Exploration sites US$	Other/ corporate US$	Total US$
Sales	73,521,389	—	—	**73,521,389**
Cost of sales	(37,445,377)	—	—	**(37,445,377)**
Gross profit	36,076,012	—	—	**36,076,012**
Other income	146,830	—	276,556	**423,386**
Administration expenses	(33,399)	—	(5,881,953)	**(5,915,352)**
Other operating expenses	(512,530)	—	(246,890)	**(759,420)**
Operating profit				**29,824,626**
Finance income	—	—	236,438	**236,438**
Finance costs	(1,510,085)	—	—	**(1,510,085)**
Profit before tax				**28,550,979**
Income tax expense	(9,851,999)	(453,045)	1,121,310	**(9,183,734)**
Profit for the period attributable to the equity holders of the parent				**19,367,245**
Total assets	157,615,070	2,683,589	2,410,650	**162,709,309**

Liabilities are reviewed on a consolidated basis and therefore not reviewed separately.

5. Revenue

The Group's revenue consists of gold bullion and copper concentrate sold to the third-party customers. Revenue from sales of gold and silver content in gold bullion was US$70,931,739 and US$515,105 respectively (2011: US$77,561,807 and US$1,194,842). Revenue from sales of copper concentrate was US$2,074,545 (2011: US$4,996,662).

Finance income of US$236,438 in 2012 represents cash deposit interest received during the year (2011: US$51,000).

6. Other operating expenses and income

Other operating income relates to the income generated as a result of release of accruals during 2012 and 2011.

Other operating expenses consist of metal processing costs, foreign currency exchange net loss and miscellaneous operating expenses. No expenses were incurred during 2012 for impairment of inventory and unrecoverable taxes (2011: US$1,141,758 and US$620,075, respectively).

7. Operating profit

	Notes	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Operating profit is stated after charging:			
Depreciation on property, plant and equipment – owned	14	**8,533,526**	12,524,389
Amortisation of mining rights and other intangible assets	13	**1,802,647**	6,587,910
Employee benefits and expenses	9	**8,504,967**	7,577,918
Net foreign currency exchange loss		**264,851**	201,522
Inventory expensed during the year		**12,620,014**	13,031,962
Operating lease expenses		**328,491**	311,098
The analysis of auditor's remuneration is as follows:			
Fees payable to the Group's auditor for the audit of the Group's annual accounts		**139,625**	112,500
The audit of the Group's subsidiaries pursuant to legislation		**118,800**	118,800
Total audit fees		**258,425**	233,300
Amounts paid to auditor for other services:			
Tax services		**9,000**	28,482
Audit related assurance services		**5,000**	5,000
Total non-audit services		**14,000**	32,482

There were no non-cancellable operating lease and sublease arrangements during 2012 and 2011.

The audit fees for the parent company were US$40,300 (2011: US$40,300).

8. Remuneration of Directors

Year ended 31 December 2012	**Consultancy US$**	**Fees US$**	**Benefits US$**	**Total US$**
Richard Round	**—**	**51,620**	**—**	**51,620**
John Sununu	**—**	**75,425**	**—**	**75,425**
Khosrow Zamani	**—**	**127,032**	**—**	**127,032**
Reza Vaziri	**371,111**	**51,620**	**42,000**	**464,731**
John Monhemius	**14,400**	**51,620**	**—**	**66,020**
Total	**385,511**	**357,317**	**42,000**	**784,828**

Directors' fees and consultancy fees for 2012 included above were paid in cash. No gain was realised by Directors as a result of options exercising during 2012 (2011: $481,512).

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.

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 2012 Number	Year ended 31 December 2011 Number
Management and administration	**54**	50
Processing and exploration	**95**	65
Mine operations	**417**	393
Total	**566**	508

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Wages and salaries	**7,989,312**	7,617,726
Share-based payments	**95,647**	28,194
Social security costs	**1,861,739**	1,763,767
	9,946,698	9,409,687
Less: salary costs capitalised as exploration, evaluation development, fixed asset and inventory expenditure	**(1,441,731)**	(1,831,769)
Total employee costs	**8,504,967**	7,577,918

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 2012 US$	Year ended 31 December 2011 US$
Short-term employee benefits	**784,828**	728,394
Share-based payment	**—**	5,953
	784,828	734,347

10. Finance costs

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Interest charged on interest-bearing loans and borrowings	**1,786,596**	3,006,243
Finance charges on letters of credit and accretion expenses	**243,265**	264,666
Interest capitalised during the period	**(519,776)**	—
Total finance cost	**1,510,085**	3,270,909

Interest on interest-bearing loans and borrowings represents charges incurred on credit facilities with the International Bank of Azerbaijan ('IBA').

Where a portion of the loans has been used to finance the construction and purchase of assets of the Group ('qualifying assets'), the interest on that portion of the loans has been capitalised up until the time the assets were substantially ready for use. US$519,776 of interest on new loans from IBA obtained for construction of new plant in Gedabek was capitalised in 2012 (2011: $nil) (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 no unutilised tax losses in 2012.

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

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Current income tax:		
Current income tax charge	**2,300,404**	4,950,289
Deferred tax:		
Relating to origination and reversal of temporary differences	**6,883,330**	7,900,635
Income tax expense reported in the consolidated income statement	**9,183,734**	12,850,924

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	As at 31 December 2012 US$	As at 31 December 2011 US$	**Year ended 31 December 2012 US$**	Year ended 31 December 2011 US$
Deferred income tax liability:				
Property, plant and equipment	**(10,635,606)**	(6,546,680)	**(4,088,926)**	(712,118)
Non-current prepayments	**(878,554)**	(93,533)	**(785,021)**	(2,505)
Trade and other receivables	**(1,305,818)**	(493,324)	**(812,494)**	(90,632)
Inventories	**(10,458,306)**	(7,553,692)	**(2,904,614)**	(3,049,589)
Deferred tax liability	**(23,278,284)**	(14,687,229)		
Deferred income tax asset:				
Trade and other payables and provisions	**2,454,052**	1,449,662	**1,004,390**	240,583
Asset retirement obligation	**1,479,333**	775,998	**703,335**	—
Carry forward losses	**—**	—	**—**	(4,286,374)
Deferred tax asset	**3,933,385**	2,225,660		
Deferred income tax expense			**(6,883,330)**	(7,900,635)
Net deferred tax liability	**(19,344,899)**	(12,461,569)		

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
Profit before tax	**28,550,979**	31,623,383
Theoretical tax charge at statutory rate of 32% for RVIG*	**9,136,313**	10,119,483
Effects of different tax rates for certain Group entities (28%)	**44,170**	65,062
Tax effect of items which are not deductible or assessable for taxation purposes:		
– losses in jurisdictions that are exempt from taxation	**3,768**	3,271
– non-deductible expenses	**456,120**	2,365,088
– non-taxable income	**(163,976)**	—
Unrecognised deferred tax assets	**—**	298,020
Benefit from unrecognised deferred tax assets of previous years	**(292,661)**	—
Income tax expense for the year	**9,183,734**	12,850,924

* This is the local tax rate applicable in accordance with local legislation

11. Taxation continued

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$7,913,323 (2011: US$6,813,064) available for offset against future profits. There were no unused tax losses in the Republic of Azerbaijan in 2012. 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 17.41 cents (2011: 16.91 cents) has been based on a weighted average number of shares in issue of 111,238,129 (2011: 110,993,882) and a net income of US$19,367,245 (2011: US$18,772,459).

Dilutive earnings per share are 17.26 cents for 2012 (2011: 16.47 cents). Dilutive earnings per share have been based on 112,219,871 (2011: 113,970,224), the weighted average number of shares determined based on the dilutive effects of 981,742 (2011: 2,976,342) share options exercisable as of 31 December 2012.

13. Intangible assets

Exploration and evaluation assets

	Gedabek US$	Gosha US$	Ordubad US$	Total US$
Cost				
As at 1 January 2011	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 (note 14)	—	(4,101,340)	—	(4,101,340)
As at 31 December 2011	4,946,919	—	2,173,640	7,120,559
Additions	905,817	—	509,949	1,415,766
Transfer to property, plant and equipment (note 14)	(5,852,736)	—	—	(5,852,736)
As at 31 December 2012	**—**	**—**	**2,683,589**	**2,683,589**

Mining rights and other intangible assets

	Mining rights US$	Other intangible assets US$	Total US$
Cost			
As at 1 January 2011	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
Additions	—	229,770	229,770
As at 31 December 2012	**41,925,262**	**672,971**	**42,598,233**
Amortisation and impairment*			
As at 1 January 2011	(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)
Charge for the year	(1,767,344)	(35,303)	(1,802,647)
As at 31 December 2012	**(22,260,195)**	**(193,535)**	**(22,453,730)**
Net book value			
As at 31 December 2011	21,432,411	284,969	21,717,380
As at 31 December 2012	**19,665,067**	**479,436**	**20,144,503**

* An amount of 609,000 ounces of recoverable gold has been used during 2012 (2011: 244,000 ounces) to determine depreciation on accumulated mining rights and other intangible assets.

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 2011	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 (note 13)	—	—	—	—	—	—	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
Capitalisation of interest (note 10)	—	—	—	—	—	—	519,776	519,776
Additions	7,377	1,202,315	882,683	222,109	225,246	—	41,936,354	44,476,084
Transfer to producing mines	—	—	18,581,802	—	—	—	(18,581,802)	—
Transfer from evaluation and exploration assets (note 13)	—	—	—	—	—	—	5,852,736	5,852,736
Increase in provision for rehabilitation	—	—	2,012,295	—	—	—	—	2,012,295
As at 31 December 2012	**323,734**	**8,472,244**	**75,620,339**	**979,055**	**2,806,171**	**455,105**	**38,189,247**	**126,845,895**
Depreciation and impairment*								
As at 1 January 2011	(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)
Charge for the year	(40,005)	(1,080,732)	(6,863,214)	(166,939)	(355,294)	(47,342)	—	(8,533,526)
As at 31 December 2012	**(269,197)**	**(4,097,352)**	**(32,083,871)**	**(620,041)**	**(1,507,824)**	**(410,575)**	**—**	**(38,968,860)**
Net book value								
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
As at 31 December 2012	**54,537**	**4,374,892**	**43,536,468**	**359,014**	**1,298,347**	**44,530**	**38,189,247**	**87,877,035**

* An amount of 609,000 ounces of recoverable gold has been used during 2012 (2011: 244,000 ounces) to determine depreciation on accumulated mine development costs based on a new JORC-compliant reserve report.

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 2012 US$	As at 31 December 2011 US$
Gold held and transferable to the Government to satisfy obligations	**3,831,200**	1,168,185
VAT refund due	**1,706,233**	978,442
Other tax receivable	**462,462**	—
Trade receivables	**1,055,058**	93,330
Prepayments and advances	**3,427,194**	1,531,039
	10,482,147	3,770,996

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

The VAT refund due at 31 December 2012 and 2011 relates to VAT paid on purchases.

The gold bullion held and transferable to the Government relates to bullion held by the Group for which it owes to the Government. 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.

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

18. Inventories

	As at 31 December 2012 US$	As at 31 December 2011 US$
At cost		
Finished goods – bullion	**2,030,670**	1,151,566
Finished goods – metal in concentrate	**4,363,560**	3,258,156
Metal in circuit	**17,976,010**	18,434,070
Ore stockpiles	**7,457,165**	—
Spare parts and consumables	**4,600,227**	4,457,391
	36,427,632	27,301,183

The Group has capitalised mining costs related to low grade oxide and high grade sulphide ore stacked during the year. Such stockpiles are expected to be utilised as part of heap leaching and agitation leaching process accordingly. Inventory is recognised at lower of cost or net realisable value.

19. Cash and cash equivalents

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

The Group's cash on hand and cash held within financial institutions comprised US$197,842 and US$2,212,888, respectively (2011: US$127,117 and US$9,811,477).

The Group's cash and cash equivalents are mostly held in US Dollars.

20. Trade and other payables

	As at 31 December 2012 US$	As at 31 December 2011 US$
Accruals and other payables	**6,273,853**	5,104,558
Trade creditors	**1,279,438**	1,904,655
Gold held and transferable to the Government to satisfy obligations	**3,831,200**	1,168,185
Payable to the Government from copper concentrate joint sale	**228,100**	519,872
Current income tax payable	**—**	110,490
	11,612,591	8,807,760

Trade creditors primarily comprise amounts outstanding for trade purchases and ongoing costs. Trade creditors are non-interest-bearing and the creditor days were 24 (2011: 15). 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 payable 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.

21. Interest-bearing loans and borrowings

	As at 31 December 2012 US$	As at 31 December 2011 US$
Loans from IBA	**30,759,749**	13,128,412
Total interest-bearing loans and borrowings	**30,759,749**	13,128,412
Loans repayable in less than one year	**1,820,999**	11,307,412
Loans repayable in more than one year	**28,938,750**	1,821,000

IBA has agreed to finance construction of the new plant in Gedabek and the Group has signed new loan agreements with IBA for total amount of US$43,500,000 in 2012. During 2012 the Group has drawndown US$29,326,689 from total facilities available under the agreement. Interest rate per the agreements is 12% per annum. Repayment of the principal loan starts after two years from the withdrawal date for each contract. According to the terms of the new loan agreement, all the assets purchased using funds provided under the loan agreement shall be treated as collateral until full settlement of the loan. As of 31 December 2012 the Group has pledged the assets under construction in amount of US$29,326,689 for the loan from IBA (2011: nil).

The Group has repaid to IBA US$11,220,000 (2011: US$16,588,000) of loan balance during the year.

As at 31 December 2012 the Group had undrawn facilities of US$14,173,311 (2011: US$227,000) after consideration of the letters of credit which are guaranteed by the IBA.

22. Provision for rehabilitation

	2012 US$	2011 US$
Carrying amount as at 1 January	**2,424,995**	1,363,970
Change in estimate	**1,937,331**	1,327,033
Accretion expense	**165,627**	93,160
Effect of change in discount rate	**94,963**	(359,168)
Carrying amount as at 31 December	**4,622,916**	2,424,995

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 on-going basis, based on the estimated life of the mine. A new estimation was made as a result of change of expected rehabilitation works due to new plant and certain changes in production process as a result of new agitation plant. This represents the net present value of the best estimate of the expenditure required to settle the obligation to rehabilitate any environmental disturbances caused by mining operations (US$9,064,875 undiscounted liability for 2012 and US$4,043,836 undiscounted liability for 2011, discounted using a risk-free rate of 6.62% and 6.83% for 2012 and 2011, respectively).

Expenditures on restoration and rehabilitation works are expected between 2022–2023.

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 capital risk, market risk, 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 2012 and 2011 using the amounts of debt and other financial assets and liabilities held as at those reporting dates.

23. Financial instruments continued

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 on-going production and exploration activities, with capital requirements reviewed by the Board on a regular basis. Capital has been sourced through share issues on AIM, part of the London Stock Exchange, and loans from the IBA and other Azerbaijani banks. 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, less cash and cash equivalents.

	As at 31 December 2012 US$	As at 31 December 2011 US$
Interest-bearing loans and borrowings (note 21)	**30,759,749**	13,128,412
Less cash and cash equivalents (note 19)	**(2,410,730)**	(9,938,594)
Net debt	**28,349,019**	3,189,818
Equity	**97,163,197**	76,867,936
Capital and net debt	**125,512,216**	80,057,754
Gearing ratio	**23%**	4%

Interest rate risk

The Group's cash deposits, letters of credit, borrowings and interest-bearing loans are at a fixed rate of interest. The Group manages the risk by maintaining fixed rate instruments, 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 2012 and 2011.

Interest rate sensitivity analysis

The Group's financial instruments are at fixed interest rates, therefore, there is no impact from changes in interest rates (2011: nil).

Liquidity risk

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 2012

	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	**—**	**1,985,053**	**1,729,570**	**50,879,905**	**—**	**54,594,528**
Trade and other payables	**1,638,557**	**9,974,034**	**—**	**—**	**—**	**11,612,591**
	1,638,557	**11,959,087**	**1,729,570**	**50,879,905**	**—**	**66,207,119**

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	—	336,600	12,148,624	1,875,630	—	14,360,854
Trade and other payables	1,777,515	4,857,387	484,800	—	—	7,119,702
	1,777,515	5,193,987	12,633,424	1,875,630	—	21,480,556

23. Financial instruments continued

Credit risk

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

Foreign currency risk

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	
	2012 US$	2011 US$	**2012 US$**	2011 US$
UK Sterling	**52,000**	54,496	**66,140**	31,525
Azerbaijan Manats	**6,039,496**	4,812,429	**2,526,079**	1,310,806
Other	**131,794**	154,226	**2,716**	8,126

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 8.85% and 3.82% (2011: 12.5% and 5.09%) increase and decrease in the US Dollar against UK Sterling and Azerbaijani 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, there would be an equal and opposite impact on the profit and other equity and the balances below would be reversed:

	UK Sterling impact		Azerbaijan Manat impact	
	2012 US$	2011 US$	**2012 US$**	2011 US$
Effect on profit before tax	**1,251**	2,871	**134,213**	178,233

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$7,098,505 and a 10% increase in gold prices would have the equal and opposite effect. A 10% decrease in silver price would result in a reduction in revenue of US$137,219 and a 10% increase in silver prices would have an equal and opposite effect. A 10% decrease in copper price would result in a reduction in revenue of US$118,065 and a 10% increase in copper prices would have an equal and opposite effect.

24. Equity

	As at 31 December 2012 British Pound	As at 31 December 2011 British Pound
Authorised:		
600,000,000 ordinary shares of 1 pence each	**6,000,000**	6,000,000

	US$	US$
Issued and fully paid:		
111,397,307 ordinary shares of 1 pence each (2011: 111,047,307 ordinary shares of 1 pence each)	**1,973,129**	1,967,704

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 2011	110,397,307	1,957,424
Exercise of stock options	650,000	10,280
At 31 December 2011	111,047,307	1,967,704
Exercise of stock options	350,000	5,425
At 31 December 2012	**111,397,307**	**1,973,129**

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 2012 US$	Year ended 31 December 2011 US$
Profit before tax	**28, 550,979**	31,623,383
Adjustments for:		
Finance income	**(236,438)**	(51,000)
Finance costs (note 10)	**1,510,085**	3,270,909
Depreciation of property, plant and equipment (note 14)	**8,533,526**	12,524,389
Amortisation of mining rights and other intangible assets (note 13)	**1,802,647**	6,587,910
Share-based payment expense (note 26)	**95,647**	28,194
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	**40,256,446**	55,745,618
Increase in trade and other receivables	**(3,870,981)**	(434,195)
Increase in inventories	**(9,126,449)**	(12,087,973)
Increase/(decrease) in trade and other payables	**252,306**	(364,908)
Cash provided by operations	**27,511,322**	42,858,542
Income taxes paid	**(2,593,713)**	(4,834,145)
Net cash provided by operating activities	**24,917,609**	38,024,397

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:

	2012		2011	
	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	**3,101,684**	**34**	3,526,684	29
Granted during the year	**350,000**	**46**	225,000	35
Lapsed during the year	**—**	**—**	—	—
Forfeited during the year	**—**	**—**	—	—
Exercised during the year	**(350,000)**	**7**	(650,000)	5
Outstanding at 31 December	**3,101,684**	**38**	3,101,684	34
Exercisable at 31 December	**2,851,684**	**38**	2,826,684	34

The options outstanding at 31 December 2012 had a weighted average exercise price of 38 pence (ranging from 11.5 pence to 97 pence) and a weighted average remaining contractual life of five years. 350,000 options (2011: 225,000 options) were granted in 2012. The aggregate of the estimated fair values of the options granted during 2012 is £46,943 (US$76,107) (2011: £40,306 or US$63,685).

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

Granted on 27 September 2012	
Weighted average share price	£0.46
Weighted average exercise price	£0.46
Expected volatility for one year vesting period options	49%
Expected volatility for two years vesting period options	61%
Expected life for one year vesting period option	One year
Expected life for two years vesting period option	Two year
Risk-free rate	0.20%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous one and two years for share options with one and two years vesting periods, respectively. 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 27 September 2012 is £0.13 (US$0.22).

Total share-based payment expense recognised by the Group

The Group recognised total expenses of US$95,647 and US$28,194 related to equity-settled share-based payment transactions in 2012 and 2011, respectively.

Shared-based payment charges for options executed during 2012 of the amount of US$12,566 (2011: US$17,782) 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$731,870 (2011: US$648,789).

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 (Piyazashi, 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 the development programme to the Government according to the PSA requirements, which was approved in 2012. Additionally the Group has announced a discovery on the Ordubad group of mining properties in April 2012 and submitted the development programme to the Government according to the PSA requirements.

The mining licence on Gedabek expires in March 2022, with the option to extend the licence by ten years conditional upon satisfaction 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 2012.

There were no capital commitments at 31 December 2012.

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 2012 and 2011, there were no trading transactions between Group companies.

Other related party transactions
a) 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$93,616 (2011: US$93,135).

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

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

d) 350,000 shares were issued to Andrew Herbert, the former Chief Financial Officer of the Group, from exercise of stock options during 2012.

e) Total payments in amount of US$786,181 (2011: US$317,000) were made for equipment and spare parts purchased from Proses Muhendislik Danismanlik Inshaat ve Tasarim Anonim Shirket, the entity in which the Chief Technical Officer of Azerbaijan International Mining Company has a direct ownership interest.

There is $319,906 advance payment at year end in relation to the above related party transaction (2011: $106,495).

All of the above transactions were made on arm's length terms and during the normal course of business.

29. Subsequent events
The following subsequent events relate to the period from 31 December 2012 to the date of approval of the consolidated financial statements on 24 May 2013.

The Group has signed a new loan agreement for total amount of US$3,000,000 and US$12,300,000 was withdrawn from unused facilities available at IBA for the purposes of construction of the new plant in Gedabek.

The Group has substantially completed construction of new plant in Gedabek and started trial operations in May 2013.

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 2012 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 statement of Directors' responsibilities set out on page 17, 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 2012;
- 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 2012.

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 May 2013

Company balance sheet
as at 31 December 2012

	Notes	2012 US$	2011 US$
Non-current assets			
Tangible assets	3	**14,217**	34,490
Investments	4	**1,325,007**	1,325,007
		1,339,224	1,359,497
Current assets			
Debtors – amounts falling due within one year	6	**20,501,869**	21,967,675
Cash at bank and in hand	7	**1,100,301**	726,195
		21,602,170	22,693,870
Creditors: trade creditors and accruals	8	**(937,660)**	(987,700)
Net current assets		**20,664,510**	21,706,170
Net assets		**22,003,734**	23,065,667
Share capital and reserves			
Called up share capital	10,11	**1,973,129**	1,967,704
Share premium account	11	**32,172,575**	32,139,674
Accumulated loss	11	**(12,141,970)**	(11,041,711)
Capital employed		**22,003,734**	23,065,667

These financial statements were approved by the Board of Directors on 24 May 2013 and were signed on its behalf by:

Reza Vaziri
Chief Executive

Notes to the Company financial statements
for the year ended 31 December 2012

1. Significant accounting policies and going concern

1a. Going concern
The Directors have formed a judgement which assumes at the time of approving these financial statements that the amounts owed by the subsidiary undertakings will be recoverable and that it is appropriate to continue to adopt the going concern basis.

1b. Significant accounting policies
Basis of preparation
The parent company financial statements of Anglo Asian Mining PLC (the 'Company') are presented as required by the Companies Act 2006 and were approved for issue on 24 May 2013.

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$1,100,259 (2011: US$1,064,083).

Notes to the Company financial statements continued
for the year ended 31 December 2012

3. Tangible assets

	Office equipment US$
Cost	
As at 1 January 2012	94,885
Additions	—
As at 31 December 2012	**94,885**
Accumulated depreciation	
As at 1 January 2012	(60,395)
Charge for year	(20,273)
As at 31 December 2012	**(80,668)**
Net book value	
As at 31 December 2011	34,490
As at 31 December 2012	**14,217**

4. Investments

	Year ended 31 December 2012 US$	Year ended 31 December 2011 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 2012 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 2012 US$	Year ended 31 December 2011 US$
Amounts falling due within one year		
Prepayments	**25,578**	73,968
Advances paid	**385,624**	—
HMRC	**43,031**	12,907
Amounts owed by subsidiary undertakings	**20,047,636**	21,880,800
	20,501,869	21,967,675

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 2012 US$	Year ended 31 December 2011 US$
Amounts falling due within one year		
Trade creditors	**9,346**	24,715
Accruals	**928,314**	962,985
	937,660	987,700

9. Deferred taxation

	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
The elements of unrecognised deferred taxation are as follows:		
Tax losses	**1,681,605**	1,373,532
Unrecognised deferred tax asset	**1,681,605**	1,373,532

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

	2012		2011	
	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	**111,047,307**	**1,967,704**	110,397,307	1,957,424
At the end of the year	**111,397,307**	**1,973,129**	111,047,307	1,967,704

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 2012	1,967,704	32,139,674	(11,041,711)	23,065,667
Loss for the year	—	—	(1,195,906)	(1,195,906)
Share issue	5,425	32,901	—	38,326
Share-based payment	—	—	95,647	95,647
As at 31 December 2012	**1,973,129**	**32,172,575**	**(12,141,970)**	**22,003,734**

Shares issued during the year relate to those issued as a result of options exercise.

12. Share-based payments

Equity-settled share option scheme

Details in relation to the Company's equity-settled share option scheme are 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 (2011: US$40,300) to its auditor in respect of the audit of the financial statements of the Company. Fees paid to Ernst & Young LLP and their associates for non-audit services to the Company itself are not disclosed in the individual accounts of Anglo Asian Mining PLC because consolidated financial statements are prepared which are required to disclose such fees on a consolidated basis.

Corporate information

Azerbaijan Office (principal place of business)
16 H. Aleskerov Str.
Baku
The Republic of Azerbaijan

Secretary and Registered Office
Sean Duffy
7 Devonshire Square
Cutlers Gardens
London EC2M 4YH
United Kingdom

Company number
05227012
Registered in England and Wales

VAT registration number
872 3197 09

Bankers – United Kingdom
HSBC
79 Piccadilly
London W1J 8EU
United Kingdom

Bankers – Azerbaijan
International Bank of Azerbaijan
67 Nizami Str.
Baku
The Republic of Azerbaijan

Bankers – Azerbaijan
Yapi Kredi Bank Azerbaijan JSC
32 J. Jabbarly Str.
Baku
The Republic of Azerbaijan

Solicitors – United Kingdom
Squire Sanders (UK) LLP
7 Devonshire Square
Cutlers Gardens
London EC2M 4YH
United Kingdom

Solicitors – Azerbaijan
Nazal Consulting LLC
36 Islam Safarly Str.
Baku
The Republic of Azerbaijan

Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Nominated Adviser and Broker
SP Angel Corporate Finance LLP
Prince Frederick House
35–39 Maddox Street
London W1S 2PP
United Kingdom

Financial PR Advisers
St Brides Media and Finance Limited
Chaucer House
38 Bow Lane
London EC4M 9AY
United Kingdom

Registrar
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

For further information please visit www.angloasianmining.com or contact:

Reza Vaziri	Anglo Asian Mining PLC	Tel: +994 12 596 3350
Sean Duffy	Anglo Asian Mining PLC	Tel: +994 12 596 3350
Ewan Leggat	SP Angel Corporate Finance, as Nominated Adviser	Tel: +44 (0)20 3463 2260
Laura Littley	SP Angel Corporate Finance, as Corporate Broker	Tel: +44 (0)20 3463 2260
Felicity Edwards	St Brides Media & Finance Ltd	Tel: +44 (0)20 7236 1177
Hugo de Salis	St Brides Media & Finance Ltd	Tel: +44 (0)20 7236 1177

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ANGLO ASIAN MINING PLC

Anglo Asian Mining PLC
16 H. Aleskerov Str.
Baku
Republic of Azerbaijan
Tel +994 12 596 3350
Fax +994 12 596 3354
www.angloasianmining.com