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ANGARA MINING PLC
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2006

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COMPANIES HOUSE

Angara Mining Plc
and its Subsidiary Companies

Directors

I Preys
P Golovinov
V Preys
J Fairley

Secretary and Registered Office

J L Ogden (appointed 14 July 2006)
C R Walker (resigned 14 July 2006)
Moorgate House, Clifton Moortgate, York,
North Yorkshire, YO30 4WY

Principal Place of Business

25 Southampton Buildings, London WC2A 1AL

Auditors

Moore Stephens LLP
Chartered Accountants
St Paul's House, Warwick Lane, London, EC4M 7BP

Report of the Directors

The directors present their report and audited financial statements for the year ended 31 December 2006

Financial Statements

The directors present herewith their report together with the audited consolidated financial statements of the group for the year ended 31 December 2006

These financial statements consolidate the balances and results of the Company and its material subsidiaries, together the Group

The formation of the Company on 14 July 2005 and the acquisition by it of its subsidiaries, which occurred during the previous year, is considered a group reorganisation as the ultimate ownership of all the companies within the Group has remained the same before and after

Consequently, as the consolidation rules established in IFRS 3 are not applicable, the reorganization has been accounted for using the uniting of interests "merger method" described in IAS 22 In applying the method, financial statement items for each company accounted for by this method are consolidated as if they had been consolidated from the earliest period presented, the result being a consolidation of share capital and reserves in addition to all assets and liabilities All transactions and balances between Group companies are eliminated on consolidation

Angara Mining Plc
and its Subsidiary Companies

Report of the Directors (Continued)

Principal Activity

The principal activity of Angara Mining plc is to act as a holding company

The principal activities of the Group include the exploration and development of mineral properties, primarily gold, in Russia Since its incorporation in 1993, the Group's primary operating company, JSC "Vasilevsky Rudnik Gold Mine" has been constructing a gold processing plant

Results and Dividends

In 2006 the Group completed construction of the gold extraction factory ("GEF") and started full scale production operations During the first half of the year start-up operations have been completed including tuning of the equipment at GEF and optimization of the technological process

Group turnover totalled USD 20,353,059 This was a result from full scale operations at Vasilevsky Rudink Gold Mine Production for the year totalled 36,700 ozs from which 32,892 ozs of gold were sold at average price of USD 596/oz Processing of the ore at GEF for the year reached nearly full capacity and totalled around 336 thousands tons of ore in 2006

The Group reported an audited loss for 2006 of USD 10,996,637 Gross margin for the year ended 31 December 2006 comprised 38% Because the Group incurred loss during its first year of operations taxation mainly comprise of deferred tax gain Most of this gain related to temporary taxable differences on fixed assets which will be realized by the Group in the future periods

Administrative expenses totalling USD 7,255,437 for the year 2006 have been incurred by London, Moscow and Krasnoyarsk offices

At the beginning of the year most of Mining properties were put in to use due to competition of their construction Depreciation started to be charged on the mining properties due to start of the operations Exploration costs of USD 1,842,326 were capitalized in the year

The Group retained cash balances of USD 11,492,589 at the year end

The directors do not recommend the payment of a dividend

Financial Risk Management

There are a number of financial risks that the group faces

Foreign Exchange Risk

A major portion of the Group's sales in the future will be invoiced in USD, and the Group's activity is primarily financed by USD loans

The Group has significant balances and transactions denominated in the Russian Rouble The Russian Rouble is not a fully convertible currency outside the Russian Federation and, accordingly, any conversion of Russian Rouble ("RUR") amounts to USD in these financial statements should not be construed as a representation that Russian Rouble amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown in the notes to the financial statements, or at any other exchange rate

Angara Mining Plc
and its Subsidiary Companies

Report of the Directors (Continued)

Financial Risk Management (continued)

Liquidity Risk

The group finances its operations through a combination of related party and third party long term loans, denominated in both US Dollars and Russian Roubles

On 10 April 2006 Angara Mining Plc issued a USD50,100,000 convertible bond (see note 13)

Interest Rate Risk

To the extent that the group enters into external loan agreements, exposure to interest risk arises on interest on borrowings being charged at US Dollar LIBOR rates Other loans are at a fixed interest rate

Credit Risk

No material exposure is considered to exist in respect of trade and other receivables All the material elements of other receivables were redeemed post year end The maximum exposure to credit risk is represented by the carrying amount of each financial asset

Creditor Payment Policy

It is the Group's policy to comply with the terms of payment agreed with its suppliers Where payment terms are not negotiated the Group endeavors to adhere to suppliers' standard terms

Directors' Declaration

Each of the persons who are directors at the time when this report is approved has confirmed that

(a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the company's auditors for that purpose, in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

Auditors

Moore Stephens LLP was appointed auditors on 8 March 2006 A resolution to re-appoint Moore Stephens LLP as the company's auditors will be put to the forthcoming Annual General Meeting

By Order of the Board on 6/6/07

J FAIRLEY Director

Angara Mining Plc
and its Subsidiary Companies

Statement of Directors' Responsibilities
For the year ended 31 December 2006

The directors have prepared and are responsible for the consolidated financial statements and related notes of Angara Mining plc They have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and in accordance with the provisions of the Companies Act 1985

In preparing these financial statements, the directors have

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that are reasonable and prudent,
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepared the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent Auditors' Report to the Shareholders of Angara Mining Plc and its Subsidiary Companies

We have audited the group and parent company financial statements (the "financial statements") of Angara Mining plc for the year ended 31 December 2006 which are set out pages 6 to 33 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements This other information comprises only the Directors' Report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's loss for the year then ended, and

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the financial statements

Moore Stephens LLP

St Paul's House
Warwick Lane
LONDON EC4M 7BP

Moore Stephens LLP
Registered Auditors
Chartered Accountants

6 June 2007

ANGARA MINING PLC
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006
(Amounts in US Dollars)

	Notes	2006	2005	2004
NON-CURRENT ASSETS				
Intangible assets	4	188,271	161,045	10,774
Tangible assets	6	56,643,964	4,922,231	4,776,777
Mining properties	7	1,413,793	51,607,732	31,626,919
Exploration costs	5	1,814,745	-	-
Deferred tax	15	5,143,215	2,732,008	1,950,948
Total non-current assets		65,203,988	59,423,016	38,365,418
CURRENT ASSETS				
Inventories	8	7,072,141	2,783,940	1,373,317
Receivables	9	11,449,532	4,192,514	1,104,480
Bank and cash		11,492,589	77,222	72
Total current assets		30,014,262	7,053,676	2,477,869
Total assets		**95,218,250**	**66,476,692**	**40,843,287**
SHAREHOLDERS' DEFICIT				
Share capital	10	80,000	20,000	20,000
Merger reserve	11	3,153,920	3,153,920	3,153,920
Other reserve	13	1,574,925	-	-
Accumulated losses		(20,962,900)	(9,966,263)	(7,575,585)
Total shareholders' deficit		(16,154,055)	(6,792,343)	(4,401,665)
NON-CURRENT LIABILITIES				
Convertible bonds	13	50,112,530	-	-
Long term loans payable	12	49,698,176	57,996,048	32,882,691
Accrued interest payable on long term loans		3,925,983	2,817,720	-
Non-current portion of finance lease obligations	14	-	436,198	1,081,086
Total non-current liabilities		103,736,689	61,249,966	33,963,777
CURRENT LIABILITIES				
Short term loans payable	12	531,803	6,866,120	8,678,836
Payable to contractors		3,976,995	702,280	487,608
Other payables	16	3,126,818	4,450,669	2,114,731
Total current liabilities		7,635,616	12,019,069	11,281,175
Total liabilities and shareholder's deficit		**95,218,250**	**66,476,692**	**40,843,287**

Approved on behalf of the Board of Directors on 6/6/07 and signed on their behalf by

J FAIRLEY Director

The accompanying notes on pages 13 to 33 form an integral part of these financial statements

ANGARA MINING PLC
COMPANY BALANCE SHEET AS AT 31 DECEMBER 2006
(Amounts in US Dollars)

	Notes	2006	2005	2004
NON-CURRENT ASSETS				
Fixed assets		9,541	-	-
Investment in subsidiary undertaking	1	2,106	2,106	-
Total non-current assets		11,647	2,106	-
CURRENT ASSETS				
Other receivables	9	47,582,941	14,447	-
Bank and cash		2,505,128	12,303	-
Total current assets		50,088,069	26,750	-
Total assets		**50,099,716**	**28,856**	**-**
SHAREHOLDERS' DEFICIT				
Share capital	10	80,000	20,000	-
Other reserve	13	1,574,925	-	-
Accumulated losses		(2,590,444)	-	-
Total shareholders' deficit		(935,519)	20,000	-
NON-CURRENT LIABILITIES				
Convertible bonds	13	50,112,530	-	-
CURRENT LIABILITIES				
Other payables	16	919,705	8,856	-
Total current liabilities		919,705	8,856	-
Total liabilities and shareholder's funds		**50,099,716**	**28,856**	**-**

Approved on behalf of the Board of Directors on 6/6/07 and signed on their behalf by

J FAIRLEY Director

The accompanying notes on pages 13 to 33 form an integral part of these financial statements

ANGARA MINING PLC
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

(Amounts in US Dollars)

	Notes	2006	2005	2004
Turnover		20,353,059	-	-
Cost of goods sold		(12,608,836)	-	-
Gross profit		**7,744,223**	-	-
Other income		358,731	-	-
Depreciation of tangible assets		(3,284,623)	(946,168)	(297,255)
Amortization of intangible assets		(22,625)	(25,500)	(41)
Amortization of exploration costs		(27,581)	-	-
General and administrative expenses	17	(7,255,437)	(2,372,454)	(1,081,817)
Social assets written off		(71,046)	(211,939)	-
Other fixed assets written off		-	(21,824)	(10,697)
Loss from operations		**(2,558,358)**	**(3,577,885)**	**(1,389,810)**
Exchange differences		(1,842,986)	839,878	(597,408)
Interest received		628,145	-	-
Interest received – promissory notes		-	75,778	-
Interest paid	18	(9,629,845)	(509,509)	(86,599)
Loss before tax		**(13,403,044)**	**(3,171,738)**	**(2,073,817)**
Taxation	19	2,406,407	781,060	489,703
Net loss for the year		**(10,996,637)**	**(2,390,678)**	**(1,584,114)**

The accompanying notes on pages 13 to 33 form an integral part of these financial statements

ANGARA MINING PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(Amounts in US Dollars)

		2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating cash receipts		20,426,641	-	-
Operating cash payments		(23,325,973)	(3,638,617)	(2,136,625)
Cash generated from operations		(2,899,332)	(3,638,617)	(2,136,625)
Tax paid		(4,800)	-	-
NET CASH FROM OPERATING ACTIVITIES		**(2,904,132)**	**(3,638,617)**	**(2,136,625)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans repaid by third party		-	20,001	-
Loans granted to third party		-	-	(20,001)
Expenditure on intangible assets		(27,226)	(175,771)	-
Expenditure on tangible and mining assets and related inventories		(11,357,380)	(18,291,458)	(8,053,002)
Exploration costs		(1,814,745)	-	-
Interest paid and capitalised		-	(1,038,176)	(294,369)
NET CASH USED IN INVESTING ACTIVITIES		**(13,199,351)**	**(19,485,404)**	**(8,367,372)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Loans drawndown		54,189,556	30,076,166	12,357,034
Loans issued	9	(1,650,598)	-	-
Repayment of borrowings		(20,332,189)	(5,991,341)	(1,045,094)
Interest paid		(4,322,492)	-	-
Interest received		628,145	-	-
Share capital issued		60,000	-	-
Lease capital repayments		(823,444)	(516,916)	(721,272)
Finance lease interest paid		(170,128)	(366,738)	(86,599)
NET CASH FROM FINANCIAL ACTIVITY		**27,518,850**	**23,201,171**	**10,504,069**
Net increase in cash and cash equivalents		11,415,367	77,150	72
Cash and cash equivalents, at beginning of period		77,222	72	-
Cash and cash equivalents, at end of period		11,492,589	77,222	72
Material non-cash transactions				
Finance lease transactions in respect of acquisition of tangible assets		-	-	(2,374,050)
Interest accrued and capitalised as mining assets, but not paid		-	(2,322,343)	(301,210)
Exchange movements on loans			772,856	(61,205)
Promissory notes granted		-	(2,307,638)	-
Promissory notes received		-	2,307,638	-

The accompanying notes on pages 13 to 33 form an integral part of these financial statements

ANGARA MINING PLC
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(Amounts in US Dollars)

	2006	2005	2004
Operating cash payments	(570,538)	-	-
NET CASH FROM OPERATING AVITIVITES	**(570,538)**	**-**	**-**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(9,541)	-	-
Acquisition of subsidiary	-	(7,697)	-
NET CASH USED IN INVESTING ACTIVITIES	**(9,541)**	**(7,697)**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bonds	47,632,748	-	-
Loans issued	(45,879,120)	-	-
Interest received	3,012,776	-	-
Interest paid	(1,753,500)	-	-
Proceeds from issue of share capital	60,000	20,000	-
NET CASH USED IN FINANCING ACTIVITIES	**3,072,904**	**20,000**	**-**
Net increase in cash and cash equivalents	2,492,825	12,303	-
Cash and cash equivalents, at beginning of period	12,303	-	-
Cash and cash equivalents, at end of period	2,505,128	12,303	-

The accompanying notes on pages 13 to 33 form an integral part of these financial statements

ANGARA MINING PLC
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(Amounts in US Dollars)

	Share Capital	Merger Reserve	Other reserve	Accumulated losses	Total
Comparative (note 2(b)) at 1 January 2004	20,000	3,153,920	-	(5,991,471)	(2,817,551)
Net loss for the year	-	-	-	(1,584,114)	(1,584,114)
31 December 2004	20,000	3,153,920	-	(7,575,585)	(4,401,665)
Net loss for the year	-	-	-	(2,390,678)	(2,390,678)
31 December 2005	20,000	3,153,920		(9,966,263)	(6,792,343)
Issue of share capital	60,000	-	-	-	60,000
Equity proportion of convertible bonds	-	-	1,574,925	-	1,574,925
Net loss for the year	-	-	-	(10,996,637)	(10,996,637)
Balance at 31 December 2006	**80,000**	**3,153,920**	**1,574,925**	**(20,962,900)**	**(16,154,055)**

The accompanying notes on pages 13 to 33 form an integral part of these financial statements

ANGARA MINING PLC
COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(Amounts in US Dollars)

	Share Capital	Merger Reserve	Other Reserve	Accumulated Losses	Total
Comparative (note 2(b)) at 1 January 2004 and at 31 December 2004	20,000	-	-	-	20,000
31 December 2005	20,000	-	-	-	20,000
Issue of share capital	60,000	-	-	-	60,000
Equity proportion of convertible bond	-	-	1,574,925	-	1,574,925
Net loss for the year	-	-	-	(2,590,444)	(2,590,444)
Balance at 31 December 2006	**80,000**	**-**	**1,574,925**	**(2,590,444)**	**(935,519)**

The accompanying notes on pages 13 to 33 form an integral part of these financial statements

ANGARA MINING PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(Amounts in US Dollars)

1 THE GROUP AND ITS OPERATIONS

Angara Mining plc ("Company") was incorporated in England & Wales on 14 July 2005 with the name Olympiac 2012 Limited with the intention that it should act as the holding company for an already existing group of companies It changed its name to Angara Mining Limited on 20 July 2005 On 20 October 2005, the Company passed a special resolution to re-register as a public limited company and on 8 November 2005, was re-registered as a public limited company

The principal activity of the Company is to act as a holding company for a group of companies comprised of the following entities ("Group")

Name	Country of incorporation	Activity
Brownypool Trading Limited	Cyprus	Intermediary holding company
JSC "Vasilevsky Rudnik Gold Mine"	Russian Federation	Gold mining
OOO "Nord 2005"	Russian Federation	Security services

The Company has a 100% interest in all of the companies listed above

On 10 August 2005, the company acquired 100% of the equity of Brownypool Trading Limited, a company incorporated in the Republic of Cyprus The cost of the investment was Cyprus Pounds 1,000, equivalent to approximately $2,106

On 6 September 2005 Brownypool Trading Limited acquired the entire issued share capital of ZAO "Vasilevsky Rudnik Gold Mine", a Russian mining company for approximately $1 9 million

At the end of 2005 JSC "Vasilevsky Rudnik Gold Mine" formed a 100% owned subsidiary OOO "Nord 2005"

The principal activities of the Group include the exploration and development of mineral properties, primarily gold, in Russia Since its incorporation in 1992, the Group's primary operating company, JSC "Vasilevsky Rudnik Gold Mine" has been constructing a gold processing plant This was financed by loan finance, further details of which are set out in note 10 Following the Russian economic crisis in 1998, construction of the plant was halted, however, administration functions continued, and interest charges continued to be incurred In 2004, following a change in shareholdings and upon the receipt of further finance, construction of the plant re-commenced In December 2005, trial mining commenced Commercial mining commenced in 2006

The Group holds licenses for the exploration of gold fields and development of gold ore mines in the Krasnoyarsk Region of Russia

The Company's ultimate beneficial owners are three private individuals Preys V Y , Preys I V , Golovinov P N These shareholders own 95% of the issued shares of Angara Mining plc The remaining 5% are held by Kisa Trading Ltd, a company registered in the British Virgin Islands

Russian Business Environment

Due to the location of the Group's principal operating company in Russia, the Group faces significant exposure to the Russian Business Environment Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside the Russian Federation, restrictive currency controls and relatively high inflation

The prospects for future economic stability in the Russian Federation are largely dependant on the effectiveness of the economic measures undertaken by the government, together with legal, regulatory and political developments

2. BASIS OF PRESENTATION

a) *Accounting framework*

These consolidated financial statements have been prepared in United States Dollars in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the EU

The Company's major operating subsidiary, JSC "Vasilevsky Rudnik Gold Mine" maintains its primary accounting records in accordance with Russian Accounting Regulations ("RAR") Its financial statements, as utilised for consolidation, have been prepared, based on those accounting records, but adjusted to comply with International Financial Reporting Standards ("IFRS") In addition to its IFRS financial statements, JSC "Vasilevsky Rudnik" also publishes financial statements prepared in accordance with RAR

b) *Basis of consolidation*

These financial statements consolidate the balances and results of the Company and its material subsidiaries as listed in note 1

The formation of the Company and the acquisition by it of the Group, which occurred during 2005, is considered a Group reorganization as the ultimate ownership of all the companies within the Group has remained the same before and after this series of events

Consequently, as the consolidation rules established in IFRS 3 are not applicable, the reorganization has been accounted for using the uniting of interests "merger method" described in IAS 22 In applying the method, financial statement items for each company accounted for by this method are consolidated as if they had been consolidated from the earliest period presented, the result being a consolidation of share capital and reserves in addition to all assets and liabilities All transactions and balances between Group companies are eliminated on consolidation

c) *Estimates and assumptions*

The preparation of financial statements requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and operating costs during the reporting period The most significant estimates relate to the carrying value and depreciable lives of property, plant and equipment, allowance for doubtful accounts and deferred taxation Actual results could differ from these estimates

The accompanying financial statements reflect the directors' assessment of the impact of the Russian business environment on the operations and the financial position of the Group The future business environment may differ from the directors' assessment The impact of such differences on the operations and the financial position of the Group may be significant

d) *Segmental information*

Segmental information is not presented in these financial statements as, in the opinion of the directors, the Group's business cannot meaningfully be divided into geographical or business segments

2 BASIS OF PRESENTATION (CONTINUED)

e) *Measurement and presentation currency*

The measurement and presentation currency used in the preparation of these financial statements is the United States dollar ("USD") The directors have determined the USD to be the measurement currency as the USD best reflects the economic substance of the underlying events and circumstances of the Group In making this assessment, the directors have considered the following matters

- A significant portion of the Group's revenues in the future will be invoiced in USD,
- The Group's activity is primarily financed by USD loans

The Group has significant balances and transactions denominated in the Russian Rouble The Russian Rouble is not a fully convertible currency outside the Russian Federation and, accordingly, any conversion of Russian Rouble ("RUR") amounts to USD should not be construed as a representation that Russian Rouble amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate

3 SIGNIFICANT ACCOUNTING POLICIES

a) *Going concern*

These financial statements have been produced on the going concern basis which assumes that the Group will continue to operate for the foreseeable future The Group will be unable to continue to operate unless it has sufficient resources to fund its activities The directors have considered the availability of funds and believe the Group will have sufficient funds made available to it in order to enable it to continue in business This opinion has been reached on the grounds that loan finance will continue to be made available by the Group's ultimate shareholders and related parties In addition, in 2007 the Company obtained USD 10 million loan from Gazprombank In April 2007 credit line from Gazprombank has been extended up to USD 40 million If the Company were unable to continue as a going concern and were to prepare financial statements on a break up basis, assets and liabilities would be stated at realisable value which would probably differ significantly from the values as presented in these financial statements

b) *Foreign currency translation*

Transactions denominated in currencies other than the USD ("foreign currencies") are recorded in USD at the average exchange rate for the period Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the income statement

Monetary assets and liabilities denominated in foreign currency are translated into USD at the official exchange rate at the balance sheet date Foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the income statement

Non-monetary items and share capital are reported using the historical exchange rate that prevailed at the date of the transaction

RUR income and expense items have been converted to USD at an average rate for the period of USD 1 = RUR 27 09 (2005 USD 1 = RUR 28 32, 2004 USD 1 = RUR 28 81) Monetary assets and liabilities have been converted to USD at a closing rate of USD 1 = RUR 26 33 (2005 USD 1 = RUR 28 78, 2004 USD 1 = RUR 27 75)

c) *Intangible assets*

Intangible assets mainly consist of expenses related to obtaining exploration licenses Costs incurred before the Group has obtained the legal right to explore an area are recognised in the income statement Amortisation of intangible assets is calculated on a straight-line basis over the period for which the license is granted Capitalised licence and software expenditures is reviewed for

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) *Intangible assets (continued)*

impairment at each balance sheet date

d) *Mine development costs*

Mine development costs, including the cost of constructing buildings and equipment and associated finance costs are capitalised Upon completion, all accumulated costs of the asset are transferred to the relevant fixed asset category Costs which are not directly attributable to the construction of the plant are included in the income statement

Borrowing costs directly attributable to constructed assets are capitalised Whilst construction of the mine was halted during the period 1998 to 2004, significant administration and technical work continued Accordingly, all interest accrued during this period has been capitalised as the associated loans were incurred in connection with the construction of the plant

During December 2005, the Group carried out trial mining The sale of the gold arising from this trial mining has been credited to mine development costs, as the Group was still refining its production process prior to the commencement of commercial mining

On the commencement of commercial mining, all subsequent loan interest is included in the income statement

No depreciation is charged on mine development costs until they are transferred to fixed assets

e) *Property, plant and equipment including mining property*

Prior to the year 2002, the Company's subsidiary, JSC "Vasilevsky Rudnik Gold Mine" only produced financial statements in accordance with RAR In the accounting records required to produce statutory financial statements for JSC "Vasilevsky Rudnik Gold Mine", fixed assets are stated in accordance with Russian statutory regulations, which require fixed assets to be held at cost/valuation less accumulated depreciation For periods commencing 1 January 2002, JSC "Vasilevsky Rudnik Gold Mine", has produced both Russian statutory financial statements and financial statements prepared in accordance with IFRS JSC "Vasilevsky Rudnik Gold Mine", has adopted the opening Russian statutory net book balances as at 1 January 2002 as deemed opening cost for IFRS reporting purposes

Major renewals and improvements are capitalised and the assets replaced are retired Maintenance, repairs and minor renewals are expensed as incurred Minor renewals include all expenditures that do not result in a technical enhancement of an asset beyond its original capability

Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is put into use The useful lives, in years, of assets by type of facility are as follows

Type of facility

Buildings and Constructions	30
Plant and Machinery	5-6
Other	3-5

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group Costs associated with fulfilling the Group's social responsibilities are expensed as incurred

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) *Exploration and development costs*

Exploration and development expenditure is recorded at cost less amortisation and provision for diminution in value When production commences, amortisation is then recognised through the profit and loss account on a straight-line basis over estimated economic life of the project Capitalised exploration and development expenditure is reviewed at for impairment at each balance sheet date

g) *Cash and cash equivalents*

Cash comprises cash in hand and cash deposited in banks

h) *Accounts receivable and prepaid expenses*

Accounts receivable are recorded inclusive of value added taxes (VAT) which are payable to the tax authorities upon collection of such receivables Trade and other receivables, including prepaid expenses, are adjusted for an allowance made for impairment of these receivables Such an allowance for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables

i) *Value added tax on purchases and sales*

VAT related to sales is payable to tax authorities upon collection of receivables from customers Input VAT is reclaimable against sales VAT upon payment for purchases The tax authorities permit the settlement of VAT on a net basis VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset or liability Where provision has been made against debtors deemed to be uncollectible bad debt expense is recorded for the gross amount of the debtor, including VAT The related VAT deferred liability is maintained until the debtor is settled or until the debtor is written off for statutory accounting purposes

j) *Inventories*

Inventories of materials, fuels and chemicals are valued at the lower of net realisable value and weighted average cost Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realisable value

Work in progress has been valued at the lower of cost and net realisable value

Inventories of gold ready for sale are valued at the lower of cost and net realisable value Costs are attributed to gold produced on an average cost basis

k) *Profit tax*

Deferred profit tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method Deferred profit tax is provided for on all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes A deferred profit tax asset is recorded only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised Deferred profit tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date

l) *Accounts payable and accrued charges*

Accounts payable are stated inclusive of value added tax which is reclaimable from the tax authorities upon the latter of receipt of goods and services or the payment of the associated payable

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) *Pension and post-employment benefits*

JSC "Vasilevsky Rudnik Gold Mine"'s mandatory contributions to the governmental pension scheme are expensed as incurred Where costs relate to construction employees, the cost is capitalised The Group has no other pension obligations

n) *Environmental liabilities*

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist

o) *Revenue recognition*

Turnover is the total amount receivable by the Group for goods supplied, excluding value added tax ("VAT") and trade discounts Turnover is recognised when persuasive evidence of an arrangement exists indicating that there has been a transfer of risks and rewards to the customer

p) *Financial instruments*

The carrying amounts of the Group's financial assets and liabilities (comprising bank and cash balances, trade and other debtors, trade and other creditors and short and long-term borrowings) generally approximate to their fair values at the date of the transaction Where the fair value of a financial asset is materially below the carrying amount, the carrying amount is written down to fair value Significant differences between the fair value and the carrying value of assets and liabilities are disclosed in note 21

q) *Finance leases*

Assets held under finance leases are capitalised in the balance sheet and are depreciated at the rate applicable to the asset category Interest is charged to the income statement on an actual basis according to the interest rate specified in the agreement

r) *Convertible bond*

The Group's convertible bond is initially recognised at fair value, net of issue costs and subsequently measured at amortised cost Any difference between the proceeds (net of issue costs) and the redemption amount is recognised in the consolidated income statement over the period of the bond using the effective interest rate method

The fair value of the liability portion of the convertible bond is determined using a market interest rate for an equivalent non-convertible bond The amount is recognised as a liability on an amortised cost basis using the effective interest rate method until the bonds are exercised or mature The equity portion of the convertible bond is recognised separately within shareholders' deficit

The liability portion is classified as a non-current liability

s) *Deferred taxation*

Deferred tax is provided in full on temporary differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates that are expected to apply when they crystallise based on current tax rates and law Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

(Amounts in US Dollars)

4 INTANGIBLE ASSETS

Cost	
As at 31 December 2004	11,467
Additions	175,771
As at 31 December 2005	187,238
Additions	49,851
As at 31 December 2006	237,089
Accumulated amortisation	
As at 31 December 2004	693
Amortisation charge	25,500
As at 31 December 2005	26,193
Amortisation charge	22,625
As at 31 December 2006	48,818
Net book value at 31 December 2004	**10,774**
Net book value at 31 December 2005	**161,045**
Net book value at 31 December 2006	**188,271**

Intangibles mainly comprise expenses incurred in obtaining licenses and geological software

5 EXPLORATION COSTS

Cost	
Additions	1,842,326
As at 31 December 2006	1,852,326
Accumulated amortisation	
Amortisation charge	27,581
As at 31 December 2006	27,581
Net book value at 31 December 2005	-
Net book value at 31 December 2006	**1,814,745**

Exploration and development costs mainly comprise of expenses on geological works preformed on the licensed areas

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6 TANGIBLE ASSETS

	Buildings and constructions	Plant and machinery	Other equipment and vehicles	Mining Properties	Total
Cost					
As at 31 December 2003	4,698	277,199	134,982	-	416,879
Assets acquired under finance lease arrangements	-	1,764,534	582,516	-	2,347,050
Transfer from construction in progress (see note 7)	-	2,582,410	80,052	-	2,662,462
Disposals	-	-	(56,160)	-	(56,160)
As at 31 December 2004	4,698	4,624,143	741,390	-	5,370,231
Additions	-	655,033	-	-	655,033
Transfer from construction in progress (see note 7)	-	399,366	59,048	-	458,414
Disposals	-	(116,269)	(74,594)	-	(190,863)
As at 31 December 2005	4,698	5,562,273	725,844	-	6,292,815
Additions	-	-	28,084	-	28,084
Transfer from construction in progress (see note 7)	1,112,809	6,422,142	3,450,319	43,993,002	54,978,272
As at 31 December 2006	1,117,507	11,984,415	4,204,247	43,993,002	61,299,171
Accumulated depreciation					
As at 31 December 2003	649	229,167	111,846	-	341,662
Depreciation charge	188	277,380	19,687	-	297,255
Disposals	-	-	(45,463)	-	(45,463)
As at 31 December 2004	837	506,547	86,070	-	593,454
Depreciation charge	157	796,260	149,751	-	946,168
Disposals	-	(104,960)	(64,078)	-	(169,038)
As at 31 December 2005	994	1,197,847	171,743	-	1,370,584
Depreciation charge	26,280	1,270,226	521,684	1,466,433	3,284,623
As at 31 December 2006	27,274	2,468,073	693,427	1,466,433	4,655,207
Net book value at 31 December 2004	**3,861**	**4,117,596**	**655,320**	**-**	**4,776,777**
Net book value at 31 December 2005	**3,704**	**4,364,426**	**554,101**	**-**	**4,922,231**
Net book value at 31 December 2006	**1,090,233**	**9,516,342**	**3,510,820**	**42,526,569**	**56,643,964**

Included in tangible assets are assets with a net book value of USD 1,678,295 held under finance leases (2005 USD 2,004,477, 2004 USD 2,294,907)

Fixed assets for the Company comprise of office equipment

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7. CONSTRUCTION IN PROGRESS

Cost

As at 31 December 2003	28,318,439
Additions	5,375,363
Interest capitalised	595,579
Transfer to tangible assets (see note 6)	(2,662,462)
As at 31 December 2004	31,626,919
Additions	17,286,258
Interest capitalised	3,364,908
Social assets written off	(211,939)
Transfer to tangible assets (see note 6)	(458,414)
As at 31 December 2005	51,607,732
Additions	4,784,332
Transfer to tangible assets (see note 6)	(54,978,272)
As at 31 December 2006	**1,413,793**

Due to the start of production at the beginning of 2006 the Company stopped capitalisation of borrowing costs (2005 USD 7 45 million, 2004 approximately USD 4 1 million)

8 INVENTORIES

	2006	2005	2004
Construction materials and consumables	1,362,982	1,656,338	1,124,473
Fuel	513,110	179,416	97,718
Chemicals	742,442	223,704	-
Work in progress (gold ore)	1,593,285	347,914	-
Goods for sale (gold)	558,055	41,472	-
Other materials	2,302,267	335,096	151,126
	7,072,141	2,783,940	1,373,317

For the purposes of these financial statements, all inventories, regardless of whether they are to be used for construction of the processing plant, have been classified as current assets

9 OTHER RECEIVABLES

	2006	2005	2004
VAT recoverable	1,437,314	973,389	940,872
Loan issued (see below)	1,650,598	-	-
Promissory notes	-	2,037,638	-
Trade debtors	75,149	-	-
Other debtors	3,432,273	860,226	20,000
Deferred expenses	538,690	-	-
Prepaid expenses	4,315,508	321,261	143,608
	11,449,532	4,192,514	1,104,480

During the year the Group issued a loan of 42,500,000 Roubles to OOO Spetzplast The loan is unsecured with an interest rate of 13 5% and the maturity date is 31 December 2007

(Amounts in US Dollars)

9 OTHER RECEIVABLES (CONTINUED)

During the year ended 31 December 2005 Macro-Invest Limited, a related party to the Group, undertook to assist the Group in raising finance Macro-Invest Limited was to arrange finance from a foreign bank and then onward lend to JSC "Vasilevsky Rudnik Gold Mine" As part of the transaction JSC "Vasilevsky Rudnik Gold Mine" issued two promissory notes to Macro-Invest Limited one for RUR 18 3 million (USD 647,000) which was interest free and the other for RUR 40 million (USD 1,391,000) which bore interest at 14%, making an overall effective interest rate of 9 6% Macro-Invest Limited issued its own promissory notes to JSC "Vasilevsky Rudnik Gold Mine" on identical terms and utilised "Vasilevsky Rudnik Gold Mine's promissory notes as security for the loan which was then on lent to the Group All promissory notes were issued on 5 August 2005 and were payable on demand not earlier than 1 February 2006 These promissory notes were redeemed in January 2006

Company

	2006	2005	2004
Amounts owed by subsidiary undertaking	47,546,404	-	-
Other debtors	25,419	-	-
Prepaid expenses	10,118	14,447	-
	47,582,941	14,447	-

Amounts owed by subsidiary undertaking consists of a loan to JSC "Vasilevsky Rudnik Gold Mine" under an intercompany loan agreement dated 10 April 2006 Interest is charged at 13% per annum and is payable semi-annually in equal instalments or earlier at the Company's request Repayment of the loan is due at the latest date of 10 April 2010

10 SHARE CAPITAL

Group and Company

	31 December 2006		
Ordinary shares of £1 each	Number of Shares	£	$
Authorised	50,000	£ 50,000	$ 80,000
Issued, allotted & paid up	50,000	£ 50,000	$ 80,000

On incorporation, the Company had an authorised share capital of £1,000, divided into 1,000 ordinary shares of £1 each, and an issued share capital of £1, comprising 1 ordinary share of £1

On 20 July 2005 every ordinary share of £1 each was subdivided into 10 ordinary shares of £0 10 each, resulting in 10,000 authorised ordinary shares of £0 10 each and 10 issued shares of £0 10 each On the same day a further 9,990 ordinary shares of £0 10 each were issued, resulting in an issued share capital of £1,000

On 20 October 2005, the authorised share capital was increased to £50,000 by restating each of the 10,000 shares of £0 10 in issue to 1,000 shares of £1, and creating an additional 49,000 ordinary shares of £1 each

On 21 October 2005, 40,000 ordinary shares of £1 each were allotted and a call of one quarter made on the unpaid amounts of all issued shares for cash to provide working capital for the company

On 10 March 2006 the balance of the unpaid amounts of all issued shares were fully paid up for cash

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11 MERGER RESERVE

The merger reserve arises from the Group reorganization and the basis of consolidation described in note 2(b)

12 LOANS PAYABLE

Lender and terms	2006	2005	2004
JSC "Krasnoyarsk Non-Ferrous Metals Plant"	-	-	2,883
Currency Roubles			
Interest Central Bank rate of RF+3%			
Maturity 25 June 1999			
Krasopttorg-99 Ltd	-	-	8,865
Currency Roubles			
Interest Central Bank rate of RF			
Maturity 1 October 2000			
Borussia Consultancy Limited	5,700,000	-	-
Currency US Dollars			
Interest 12%			
Maturity 1 April 2010			
Macro-Invest Ltd	-	5,211,500	5,405,609
Currency Roubles (R 150 million)			
Interest 14%			
Maturity 22 March 2009			
Macro-Invest Ltd	16,425,539	24,680,108	4,130,865
Currency Roubles (R 1 billion)			
Interest 14%			
Maturity 1 September 2009			
ZKB Monolit Ltd	-	-	2,810,941
Currency Roubles			
Interest 13%			
Maturity 25 July 2005			
Aldan Ltd	-	34,317	34,317
Currency US Dollars			
Interest 6%			
Maturity 30 December 2003			
Gazprombank – Eurobank	-	6,300,000	-
Currency US Dollars			
Interest LIBOR+6%			
Amount drawndown USD 9 million			
Maturity 17 August 2006			
Ministry of Finance of the Russian Federation	20,208,525	20,740,328	21,272,132
Currency US Dollars			
Interest and Penalties Capitalised	7,895,915	7,895,915	7,895,915
Interest LIBOR+0 5%, 1% - since 2004, on Principal, Interest and Penalties Capitalised			
Maturity 31 December 2015			
Total	**50,229,979**	**64,862,168**	**41,561,527**

12 LOANS PAYABLE (CONTINUED)

JSC "Krasnoyarsk Non-Ferrous Metals Plant" and Krasopttorg-99 Limited loans

As no claim for repayment had been made for over 3 years by either JSC "Krasnoyarsk Non-Ferrous Metals Plant" or Krasopttorg-99 Limited, in accordance with Russian legislation, both of these loans, together with accrued interest to date, were written back during the year ended 31 December 2005

Macro-Invest Limited loans

Interest in respect of loans granted by Macro-Invest Limited has been partially paid in 2006 but accrued in accordance with the terms of the relevant loan agreements The accrued interest in respect of the Macro-Invest Limited loans is due to be paid at the same time as the principal amount and as such is classified as long-term liabilities

Macro-Invest Limited has provided two unsecured loans to Vasilevsky Rudnik The first loan was for RUR 150 million and was initially due for repayment by 31 December 2004 The loan was subsequently extended to 22 March 2009 and fully repaid in 2006 The second loan is a credit agreement which was initially for RUR 150 million, this limit was subsequently increased to RUR 1,000 million As at 31 December 2006, the unutilised portion of the second credit facility amounted to approximately RUR 567 million (approximately USD 21 5 million) The initial credit facility was due for repayment by 30 September 2005 but has been extended to 1 September 2009, although Vasilevsky Rudnik has the right to repay the loan early

Loan from Macro-Invest Limited is unsecured

Aldan Limited loan

During 2006 Aldan loan has been repaid together with interest accrued up to the date of repayments

Gazprombank-Eurobank loan

The Gazprombank-Eurobank loan has been repaid during 2006 in accordance with repayment schedule

Borussia Consultancy Limited loan

The loan from Borussia Consultancy Limited has been used to refinance liability to Macro-Invest Loan is unsecured with interest rate of 12% payable quarterly

Russian Ministry of Finance loan

The loan from the Russian Ministry of Finance was originally made in gold (1,600 kilos of gold with a market value at the date of grant of approximately USD 18 million) in March 1997, prior to the Russian economic crisis of 1998 This loan was initially due for repayment in gold of the same quantity The resulting changes in the value of the loan due to the change in gold prices were recognized in the profit and loss account in the relevant years Following the Russian economic crisis and the cessation of construction of the processing plant, Vasilevsky Rudnik was unable to meet the repayment terms In 2002, the Russian Ministry commenced an action against Vasilevsky Rudnik for repayment of the debt due plus accrued interest and penalties In December 2004, an agreement was entered into by various parties, whereby the loan was restructured and converted into a USD loan The amount agreed was USD 21,272,132 ("Principal") plus accrued interest of USD 7,551,551 and accrued penalties of USD 344,364, (together "the Accrued Interest") The Principal was based on the market value of gold as at 31 December 2003

(Amounts in US Dollars)

12. LOANS PAYABLE (CONTINUED)

Interest on the Principal at 1% per annum must be paid by 31 December of each year (2006 USD 206,835, 2005 USD 211,808 USD 213,304) The Accrued Interest must be paid by 31 December 2015 If Vasilevsky Rudnik repays 40% of the Principal in accordance with the repayment schedule set out in the agreement, 40% of the Accrued Interest and 40% of any interest which has accrued on the Accrued Interest will be written off If Vasilevsky Rudnik duly repays the remaining 60% of the Principal, the remaining amount of the Accrued Interest together with any interest which has accrued on the Accrued Interest will be written off

The loan from the Russian Ministry of Finance is secured by a guarantee issued by Krasnoyarsk Region Government to a total value of USD 29,460,000

Breakdown of loans per maturity is as follows.	**2006**	**2005**	**2004**
Past due	-	34,317	5,336,092
Repayable within 1 year	531,803	6,831,803	3,342,744
	531,803	6,866,120	8,678,836
Repayable in 1 to 2 years	531,803	531,803	531,803
Repayable in 2 to 3 years	1,595,410	531,803	531,803
Repayable in 3 to 4 years	7,295,410	31,487,017	531,803
Repayable in 4 to 5 years	18,020,949	1,595,410	5,841,857
Repayable in 5 years or more	22,254,604	23,850,015	25,445,425
	49,698,176	57,996,048	32,882,691
Total	**50,229,979**	**64,862,168**	**41,561,527**

As noted above, if the Group repays the Russian Ministry loan in accordance with the terms of the agreement, a significant proportion of the long term debt will be written off

(Amounts in US Dollars)

13 CONVERTIBLE BONDS

	2006	2005	2004
Convertible bonds	**50,112,530**	-	-

The bonds will mature by 10 April 2008 at the latest Should the Company list its shares before 10 April 2008 the bondholders will have the option of converting to equity at a price between USD 2,498 and USD 3,758 per share (depending on the Company's total value and proportionately reduced for future share issues) or redeeming the bonds at their principal amount Should the Company not list its shares the bonds will be redeemed at 140% of principal value on 10 April 2008

The equity portion of the convertible bonds is recognised separately within shareholders' deficit as "other reserve"

14 FINANCE LEASES

During 2004 the Group entered into a number of finance lease transactions As at 31 December 2006 the Group had finance leases outstanding in respect of tangible asset acquisitions Finance leases were with OAO "Kamaz-Leasing", for which the average lease term is 3 years, and the average effective interest rate is 33%, and with Samson, for which the average lease term is 3 years and the average effective interest rate is 17% Samson is a related party (see note 20)

	Minimum Lease Payments 2006	Present Value of Minimum Lease Payments 2006	Minimum Lease Payments 2005	Present Value of Minimum Lease Payments 2005	Minimum Lease Payments 2004	Present Value of Minimum Lease Payments 2004
Within 1 year	475,519	417,572	847,125	626,962	953,294	571,691
Between 2 and 5 years	-	-	511,838	436,198	1,380,016	1,081,086
Total	475,519	417,572	1,358,963	1,063,160	2,333,310	1,652,777
Less future finance charges	(57,947)		(295,803)		(680,533)	
Present value of finance lease obligations	417,572		1,063,160		1,652,777	

(Amounts in US Dollars)

15 DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following items

	Assets		
	2006	2005	2004
Fixed assets	16,479,835	2,718,671	2,740,641
Inventories	1,622	-	876
Receivables		513,703	230,509
Other items	862,125	999,687	2,285,744
Total assets	17,343,582	4,232,061	5,257,770

	Liabilities		
	2006	2005	2004
Fixed assets	(11,620,954)	(1,432,146)	(1,007,742)
Inventories	(42,271)	(2,725)	(9,572)
Receivables	(173,712)	(9,388)	(21,990)
Other items	(363,430)	(55,794)	(2,267,518)
Total liabilities	(12,200,367)	(1,500,053)	(3,306,822)

	Net		
	2006	2005	2004
Fixed assets	4,858,881	1,286,525	1,732,899
Inventories	(40,649)	(2,725)	(8,696)
Receivables	(173,712)	504,315	208,519
Other items	498,695	943,893	18,226
Total assets	5,143,215	2,732,008	1,950,948

Movement in temporary differences can be summarized as follows

	Total
As at 31 December 2003	1,461,245
Credit for the period	489,703
Asset at 31 December 2004	1,950,948
Credit for the period	781,060
Asset at 31 December 2005	2,732,008
Credit for the period (see note 18)	2,420,207
Asset at 31 December 2006	5,143,215

All deferred tax balances are attributable to Vasilevsky Rudnik

(Amounts in US Dollars)

16 OTHER PAYABLES

	2006	2005	2004
Non-profit based taxes, and pension liabilities	743,326	324,181	254,029
Wages creditors	542,976	800,720	200,622
Current portion of finance leases (see note 14)	417,572	626,962	571,691
Promissory notes payable	-	2,037,638	-
Accruals	193,898	174,972	181,490
Other payables	370,892	454,843	350,355
Interest payable	858,154	27,091	556,544
	3,126,818	4,450,669	2,114,731

Details of interest payable are set out in note 12 - loans payable, and note 21 - related parties

Company

	2006	2005	2004
Other payables	919,705	8,856	-

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administration expenses consist of the following

	2006	2005	2004
Legal and professional fees	573,327	-	-
Wages and salaries	2,616,383	1,109,991	772,359
Rent	412,097	109,531	41,957
Transportation costs	741,355	-	-
Bond issue and listing costs	932,734	-	-
Bank charges	179,414	6,488	-
Other expenses	1,800,127	1,146,444	267,501
	7,255,437	2,372,454	1,081,817

18 INTEREST PAID

	2006	2005	2004
Interest paid – promissory notes	-	75,778	-
Interest on bond (see note 13)	3,197,899	-	-
Interest expense	6,431,946	433,731	86,599
	9,629,845	509,509	86,599

19 PROFIT TAX EXPENSE

	2006	2005	2004
Current tax charge (see below)	13,800	-	-
Foreign deferred tax credit (see note 15)	(2,420,207)	(781,060)	(489,703)
	(2,406,407)	(781,060)	(489,703)

(Amounts in US Dollars)

19 PROFIT TAX EXPENSE (CONTINUED)

The accounting loss shown in the consolidated financial statements can be reconciled to taxable profit as follows

	2006	2005	2004
Accounting loss before taxation	(13,403,044)	(3,171,738)	(2,073,817)
Tax losses not recognised	2,590,444	-	-
To exclude effects of adjustments to comply with IFRS	10,870,100	3,171,738	2,073,817
Taxable profit	**57,500**	**-**	**-**
Profit tax at 24%	**13,800**	-	-

20 COMMITMENTS AND CONTINGENCIES

Commitments

The Group has entered into an agreement with OAO Krasnoyarsk Non-Ferrous Metals Plant for the refining of the Group's gold, which agreement expires on 25 December 2007 The Group is to supply 1,911 kg of gold in 2007 for refining The cost of processing varies from 0 8% to 4,4% of the average price of gold on the London Bullion Market dependant on gold content

The Group has entered into a number of agreements for geological and exploration services, as well as agreements for the supply of construction materials, the majority of which have been prepaid

Country Risk

Due to the location of substantially all the Group's business activity in the Russian Federation, the Group faces significant exposure to the Russian business environment

Over recent years the Russian economy has suffered from significant instability that has been accompanied by high levels of inflation In addition tax and currency control regulations are in a state of flux and may be subject to differing interpretations by various governmental bodies Fines and penalties for error and omissions may be significant These factors create risks that would not be normal in a country with a more developed market economy

Despite improvements since the 1998 financial crisis, uncertainty remains in the Russian Federation as to the future direction of domestic policy, regulatory policy and political developments The directors are unable to predict what changes in conditions will take place in the future and what effect they might have on the financial position of the Group

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities Applicable taxes include value added tax, corporate income tax (profits tax), a number of turnover based taxes, and payroll (social) taxes Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies, therefore, implementing regulations are often unclear or nonexistent Accordingly, few precedents with regard to tax related issues have been established Often, different opinions regarding legal interpretation exist both among and within government ministries and organizations, thus creating uncertainties and areas of conflict Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges

These facts create tax risks in Russia substantially more significant than those typically found in countries with more developed tax systems

(Amounts in US Dollars)

20 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Generally, tax declarations remain subject to inspection for a period of three years The fact that a year has been reviewed does not preclude the Russian Tax Service performing a subsequent inspection of that year

The directors believe that, based on current year results, they have adequately provided for tax liabilities in these financial statements with regards to Russia, United Kingdom and other jurisdictions taxation liabilities However, the risk remains that those relevant authorities could take different positions with regard to interpretive issues

21. RELATED PARTY BALANCES AND TRANSACTIONS

	2006	2005	2004
Aldan Ltd. (see below)			
Loan payable as at 31 December	-	34,317	34,317
Repayment of borrowings during the year, net of exchange movements	(34,317)	-	(984,569)
Interest accrued as at 31 December	-	27,091	20,199
Interest charged during the year	-	6,892	74,476
Interest paid during the year	27,091	-	(294,369)
Macro-Invest Ltd			
Loans payable as at 31 December	16,425,539	29,891,609	9,536,474
Repayment of borrowings	18,598,946		
Borrowings received during the year, net of exchange movements	2,349,997	20,355,135	9,536,474
Promissory notes payable issued	-	2,037,638	-
Promissory notes received	-	2,037,638	-
Interest accrued as at 31 December	3,925,983	2,813,212	520,178
Interest charged during the year, net of exchange movements	3,292,656	2,293,034	520,178
ZKB Monolit.			
Loan payable as at 31 December	-	-	2,810,941
Repayment of borrowings during the year, net of exchange movements	-	(2,810,941)	2,810,941
Interest charged during the year	-	174,701	139,252
Interest paid during the year, net of exchange movements	-	(174,701)	(139,252)
Borussia Consultancy Limited			
Loan payable as at 31 December	5,700,000	-	-
Borrowings received during the year, net of exchange movements	5,700,000	-	-
Interest charged during the year	45,589	-	-
Interest paid during the year, net of exchange movements	-	-	-

(Amounts in US Dollars)

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Samson			
Accounts payable as at 31 December	252,707	-	-
Purchase of materials	(802,391)	-	-
Purchase of equipment	(337,620)	-	-
Finance lease payable as at 31 December	171,638	488,130	582,516
Finance lease repayments during the year, net of exchange movements	(316,492)	(94,386)	-
Interest charged/accrued during the year	56,783	144,071	-
Interest paid during the year	(56,783)	(77,079)	-
Finance lease interest accrued as at 31 December	(66,992)	(66,992)	-
Transbiznesinvest			
Trade and other payables at 31 December	271,628	248,493	257,751
Management			
Remuneration of key members of management for services as management	19,797	49,003	82,445
Termination benefits paid to a former member of key management	-	25,952	-

All companies noted above, with the exception of Aldan Limited are under the control of the Group's current ultimate controlling parties The former General Director and shareholder of the Company, Mr Zhukov, is the controlling party of Aldan Ltd On 25 July 2005, when he ceased to be the Company's General Director and a shareholder in the Company, Aldan Limited ceased to be a related party Certain members of the Management Board, including the ultimate controlling shareholders, have provided services to the Company during the year ended 31 December 2006 for no consideration

22. FAIR VALUE OF ASSETS AND LIABILITIES

All assets and liabilities are stated at amounts that approximate to fair value apart from the Russian Ministry gold loan After signing the restructuring agreement in 2004, the Company is paying interest of 1% on this loan This is significantly below market rate However the loan has been stated at nominal value in view of the uncertainties in calculating fair value at that time In the opinion of the directors, the fair value of this loan is USD 16,416,029 at 31 December 2006 (2005 USD 15,801,957, 2004 USD 15,258,531) using a discount rate of 14%, being the average market rate for similar loans

The loan received from Aldan Ltd (related party) is also at below market rate but the directors believe that the book value of USD nil (2005 USD 34,317, 2004 USD 34,317) is not significantly different from the fair value

(Amounts in US Dollars)

23. CURRENCY ANALYSIS

	31 December 2006		
		Denominated in	
	RUR	USD	Total
Cash and cash equivalents	8,951,650	2,540,939	11,492,589
Receivables	10,804,879	644,653	11,449,532
Bonds	-	50,112,530	50,112,530
Loans	16,425,539	33,804,440	50,229,979
Accrued interest	3,925,983	858,154	4,784,137
Payable to contractors	3,976,995	-	3,976,995
Other payables	2,202,689	69,975	2,268,664

	31 December 2005		
		Denominated in	
	RUR	USD	Total
Cash and cash equivalents	62,872	20,734	83,606
Receivables	4,178,067	56,553	4,234,620
Loans	29,891,608	34,970,560	64,862,168
Accrued interest	2,817,720	27,091	2,844,811
Payable to contractors	702,280	-	702,280
Other payables	4,861,781	-	4,861,781

	31 December 2004		
		Denominated in	
	RUR	USD	Total
Cash and cash equivalents	72	-	72
Receivables	1,084,480	20,000	1,104,480
Loans	12,359,163	29,202,364	41,561,527
Accrued interest	536,344	20,200	556,544
Payable to contractors	487,608	-	487,608
Other payables	2,641,277	-	2,641,277

For the purposes of the above disclosure, the Ministry of Finance loan has been classified as a USD loan at all dates The loan was converted into a USD loan in 2004

24 AVERAGE NUMBER OF EMPLOYEES

	2006	2005	2004
Average number of employees	1,089	642	197

25 EVENTS AFTER THE BALANCE SHEET DATE

In 2007, the Group has borrowed USD 10 million from Gazprombank Loan is secured over fixed assets with interest rate of 10 5%

In April 2007 the Group obtained confirmation from Gazprombank for increasing loan facility for another USD 31 1 million

In April 2007 the OOO Angara Management has been registered The company is 100% subsidiary of Angara Mining Plc and registered in Russian Federation The primary purpose of the company is to provide management services to ZAO Vasilevsky Rudnik Gold Mine

26 STANDARDS IN ISSUE NOT YET IN FORCE

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006 The impact of the adoption of these new and revised standards and interpretations is disclosed in the financial statements

At the balance sheet date, the following Standards and Interpretations were in issue but not yet effective

IFRS 7	Financial Instruments Disclosure
IAS 1	Amendment to IAS 1 ("Capital Disclosures")
IFRS 4	Insurance Contracts – Revised implementation guidance
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group other than the additional matters noted as follows

a) IAS 1 Additional disclosure requirements in connection with the Group's objectives, policies and processes for managing capital and quantitative data about what the Group regards as capital

b) IFRS 7 Additional disclosure requirements to enable users of the financial statements to evaluate the significance of financial instruments and their impact on the Group's financial position and performance IFRS 7 requires more disclosures in relation to all risks arising from financial instruments, including credit risk and liquidity risk The standard also requires a sensitivity analysis of market risks and how changes for each type of market risk would have impacted profit or loss in the period