

Company Number: 5508246

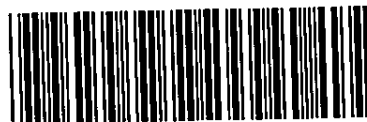
**ANGARA MINING PLC  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2007**

FRIDAY



\*L877T8IQ\*

LD2

27/03/2009

17

COMPANIES HOUSE

**Angara Mining Plc  
and its Subsidiary Companies**

**Directors**

V. Preys  
J. Fairley  
P. Golovinov  
T. Wilkinson (appointed 1 November 2007  
resigned 10 November 2008)  
S. Leighton (appointed 1 November 2007  
resigned 20 October 2008)  
V. Popov (appointed 28 May 2008  
resigned 26 January 2009)  
A. Dydychkin (appointed 28 May 2008)  
I. Preys (resigned 28 May 2008)

**Secretary and Registered Office**

Eversecretary Limited  
One Wood Street  
London, EC2V 7WS

**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**

**Financial Statements**

The directors present herewith their report together with the audited consolidated financial statements of the group for the year ended 31 December 2007.

**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. The Group's primary operating company is JSC "Vasilevsky Rudnik Gold Mine".

**Directors**

The directors who served during and following the year are reported above.

**Angara Mining Plc  
and its Subsidiary Companies**

**Report of the Directors (Continued)**

**Results and Dividends**

During 2007 the Group continued development of the Vasilevsky deposit which was put into operations in 2005. Also in summer 2007 trial mining of the Nikolayevskiy deposit has been commenced.

Group turnover totalled USD 34,880,721 and increased by 71% comparing to 2006. This increase was a result of increase in average gold price and increase in production. During the year 49,245 ozs of gold were sold at average price of USD 706/oz comparing to 32,891 ozs in 2006 at average price USD 619. Processing of the ore for the year totalled around 343,000 tons of ore during the year 2007 and reached its maximum at the current capacity.

The Group operating profit increased by 47% and reached USD 11,373,068. The Group reported a net loss for the 12 months 2007 of USD 26,994,989. Increase in loss was primarily due to non-cash adjustment on convertible bonds USD 14,813,162. Also during the year the Group suffered from increase in material, energy and labor costs. Strengthening of the Russian Ruble against US Dollar lead to increase in cash cost due to the fact that most of the expenses denominated in Rubles. As a result cash cost increased during 2007 by 19% up to 419 USD per Oz comparing to 351 USD per Oz in 2006.

The Group long term assets increased by 20% comparing to 2006. Increase mainly connected with increase exploration costs which totalled USD 9,520,529 at the end of 2007 comparing to USD 1,814,745 at the end of 2006. Significant increase connected with extensive drilling works performed in 2007 on Gerfed deposit which is due to be put into operations in 2009. The Group retained cash balances of USD 16,051,749 at the end of the period most of which are held on short term deposits.

Convertible bonds were stated at 140% due to the fact that as at 31 December 2007 it was obvious that the Group would not meet required listing deadlines. Reflection of the penalty in the accounts has lead to increase in liabilities and significant increase in shareholders deficit to USD 43,149,044.

Since the year end the Group has continued to operate at a loss. Management accounts of the main operating subsidiary show that during the first nine months of 2008 this entity incurred a loss of \$14.4 million. The continued strength of the gold price together with a strong dollar exchange rate are expected to benefit the Group.

The directors do not recommend a dividend for the year (2006 – nil) and the loss for the year has been added to accumulated losses.

**Financial Risk Management**

The Groups financial instruments comprise borrowings, cash, liquid resources and various items such as sundry debtors and creditors that arise directly from its operations. The main risks arising from the Group's financial instruments are discussed below.

**Currency Risk**

The group is exposed to translation and transaction foreign exchange risk and takes profits or losses on these as they arise. The Group does not hedge its exposure of foreign investments held in foreign currencies. The majority of the Group's future sales will be invoiced in USD. The Group seeks to minimize it's exposure to currency risk by closely monitoring exchange rates.

**Angara Mining Plc  
and its Subsidiary Companies**

**Report of the Directors (Continued)**

**Liquidity Risk**

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

**Commodity Risk**

The group is exposed to the risk of changes in commodity prices and in particular that for gold. The group currently sells its gold at London morning fixing less 0.4%. The group does not hedge its gold production.

**Interest Rate Risk**

Minimal exposure to interest risk arises on interest on borrowings due to the fact that all of them are at a fixed interest rate.

**Credit Risk**

Minimal exposure is considered to exist in respect of trade and other receivables. All the material element of other receivables, promissory notes, were redeemed post year end within normal credit terms. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

**Concentration of credit risk**

Exposure arises due to concentration of sales to one customer. However, sales are made at current market prices and the customer can be replaced if necessary.

**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 endeavours to adhere to suppliers' standard terms which is normally 30 days after delivery. Economic events have adversely affected the ability of the Group to adhere to its policy.

**Internal Controls**

The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls and for reviewing its effectiveness. The procedures which include, inter alia, financial, operational and compliance matters and risk management are reviewed on an ongoing basis. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The directors do not believe an internal audit function is practicable in a company of this size.

**Angara Mining Plc  
and its Subsidiary Companies**

**Report of the Directors (Continued)**

**Going Concern**

The Company is currently in default with respect to the redemption of the bonds. Further, in order to increase the level of turnover and so move the Group towards generating a positive cash flow from operations, additional investment in the mines is required. The directors are in discussions with the bondholders and other parties that are intended to enable the default position to be rectified and for additional working capital to be provided. Whilst they have no firm commitment the directors are confident of the negotiations being concluded in Spring 2009. The negotiations may result in a change in the terms of the amounts due from the subsidiary to the Company. As a consequence of this, the directors are satisfied that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

**Directors' Declaration**

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

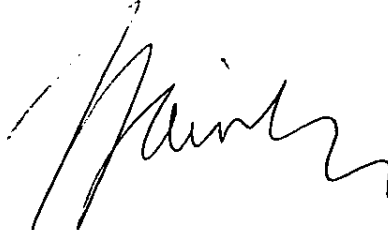
- (a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the company's auditors 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**

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 26 March 2009

J. FAIRLEY      Director



**Angara Mining Plc  
and its Subsidiary Companies**

**Statement of Directors' Responsibilities  
For the year ended 31 December 2007**

The directors have prepared and are responsible for the company and group financial statements and related notes thereto. 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 and group 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 group 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 group 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 2007 which are set out pages 7 to 43. 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 and Article 4 of the IAS Regulation. 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 Directors' 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.

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

**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 2007 and of the group's and parent company's loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and Article 4 of the IAS Regulation.
- the information given in the Directors' Report is consistent with the financial statements

**Emphasis of matter – Going concern**

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in Note 3 a) of the financial statements concerning the ability of the Group and the Company to continue as a going concern. The Group and the Company is in default of the redemption of its bonds and requires additional working capital to fund investment. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group and the Company to continue as going concerns. The financial statements do not include any adjustments that would result if the Group and Company were unable to continue as going concerns.

*Moore Stephens LLP*

St Paul's House  
Warwick Lane  
LONDON EC4M 7BP

Moore Stephens LLP  
Registered Auditors  
Chartered Accountants

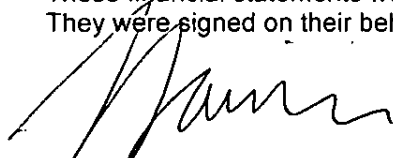
*27 March 2009*



**ANGARA MINING PLC**  
**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007**  
*(Amounts in US Dollars)*

	Notes	2007	2006
<b>NON-CURRENT ASSETS</b>			
Tangible assets	5	62,186,665	56,643,964
Assets under construction	6	1,410,006	1,413,793
Exploration costs	7	9,520,529	1,814,745
Intangible assets	8	206,531	188,271
Deferred tax assets	15	7,372,023	5,143,215
<b>Total non-current assets</b>		<b>80,695,754</b>	<b>65,203,988</b>
<b>CURRENT ASSETS</b>			
Inventories	9	10,320,285	7,072,141
Trade and other receivables	10	12,503,654	11,449,532
Cash and cash equivalents		16,051,749	11,492,589
<b>Total current assets</b>		<b>38,875,688</b>	<b>30,014,262</b>
<b>Total assets</b>		<b>119,571,442</b>	<b>95,218,250</b>
<b>SHAREHOLDERS' DEFICIT</b>			
Share capital	11	80,000	80,000
Merger reserve		3,153,920	3,153,920
Other reserve	12	1,574,925	1,574,925
Accumulated losses		(47,957,889)	(20,962,900)
<b>Total shareholders' deficit</b>		<b>(43,149,044)</b>	<b>(16,154,055)</b>
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds	12	-	50,112,530
Long term loans payable	13	49,740,834	49,698,176
Interest payable on long term loans		4,542,210	3,925,983
<b>Total non-current liabilities</b>		<b>54,283,044</b>	<b>103,736,689</b>
<b>CURRENT LIABILITIES</b>			
Convertible bonds	12	70,140,000	-
Short term loans payable	13	13,031,803	531,803
Payable to contractors		4,157,751	3,976,995
Other payables	14	21,107,888	3,126,818
<b>Total current liabilities</b>		<b>108,437,442</b>	<b>7,635,616</b>
<b>Total liabilities and shareholders' deficit</b>		<b>119,571,442</b>	<b>95,218,250</b>

These financial statements were approved by the Board of Directors and authorised for issue on 26 March 2009  
They were signed on their behalf by

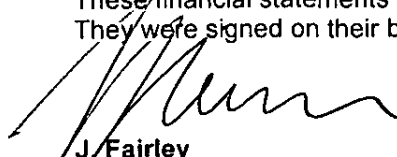
  
**J. Fairney**  
Director

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

**ANGARA MINING PLC**  
**COMPANY BALANCE SHEET AS AT 31 DECEMBER 2007**  
*(Amounts in US Dollars)*

	Notes	2007	2006
<b>NON-CURRENT ASSETS</b>			
Fixed assets		6,136	9,541
Investment in subsidiary undertakings	1	4,045	2,106
<b>Total non-current assets</b>		<b>10,181</b>	<b>11,647</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	10	47,780,248	47,582,941
Cash and cash equivalents		4,073,123	2,505,128
<b>Total current assets</b>		<b>51,853,371</b>	<b>50,088,069</b>
<b>Total assets</b>		<b>51,863,552</b>	<b>50,099,716</b>
<b>SHAREHOLDERS' DEFICIT</b>			
Share capital	11	80,000	80,000
Other reserve	12	1,574,925	1,574,925
Accumulated losses		(21,318,141)	(2,587,444)
<b>Total shareholders' deficit</b>		<b>(19,663,216)</b>	<b>(932,519)</b>
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds	12	-	50,112,530
<b>CURRENT LIABILITIES</b>			
Convertible bonds	12	70,140,000	-
Trade payables		83,375	41,111
Other payables	14	1,303,393	878,594
<b>Total current liabilities</b>		<b>71,526,768</b>	<b>919,705</b>
<b>Total liabilities and shareholder's funds</b>		<b>51,863,552</b>	<b>50,099,716</b>

These financial statements were approved by the Board of Directors and authorised for issue on 26 March 2009  
They were signed on their behalf by

  
**J. Fairley**  
Director

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

**ANGARA MINING PLC**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
*(Amounts in US Dollars)*

	Notes	2007	2006
Turnover	3 (o)	34,880,721	20,353,059
Net operating expenses		<u>(23,507,653)</u>	<u>(12,608,836)</u>
<b>Gross profit</b>		<b>11,373,068</b>	<b>7,744,223</b>
Other income		204,557	358,731
Depreciation of tangible assets	5	(5,047,321)	(3,284,623)
Amortisation of intangible assets	8	(44,236)	(22,625)
Write off of exploration costs	7	(340,019)	(27,581)
General and administrative expenses	17	(10,709,218)	(7,255,437)
Social assets written off		-	(71,046)
<b>Loss from operations</b>		<b>(4,563,169)</b>	<b>(2,558,358)</b>
Exchange differences		1,042,117	(1,842,986)
Bond redemption charge	12	(14,813,162)	-
Interest receivable	18	2,553,999	628,145
Interest payable	19	<u>(13,443,582)</u>	<u>(9,629,845)</u>
<b>Loss before tax</b>		<b>(29,223,797)</b>	<b>(13,403,044)</b>
Taxation	20	2,228,808	2,406,407
<b>Net loss for the year</b>		<b><u>(26,994,989)</u></b>	<b><u>(10,996,637)</u></b>

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

**ANGARA MINING PLC**  
**COMPANY INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
*(Amounts in US Dollars)*

	Notes	2007	2006
Turnover	3 (o)	360,000	210,000
Net operating expenses		<u>(39,680)</u>	<u>(12,901)</u>
<b>Gross profit</b>		<b>320,320</b>	<b>197,099</b>
General and administrative expenses	17	<u>(1,629,417)</u>	<u>(396,027)</u>
<b>Loss from operations</b>		<b>(1,309,097)</b>	<b>(198,928)</b>
Bond redemption charge	12	(14,813,162)	-
Interest receivable	18	6,043,610	4,328,187
Interest payable	19	<u>(8,652,048)</u>	<u>(6,716,703)</u>
<b>Loss before tax</b>		<b>(18,730,697)</b>	<b>(2,587,444)</b>
Taxation		-	-
<b>Net loss for the year</b>		<b><u>(18,730,697)</u></b>	<b><u>(2,587,444)</u></b>

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

**ANGARA MINING PLC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
*(Amounts in US Dollars)*

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating cash receipts	35,098,750	20,426,641
Operating cash payments	<u>(35,966,472)</u>	<u>(23,325,973)</u>
Cash generated from operations	(867,722)	(2,899,332)
Tax paid	<u>-</u>	<u>(4,800)</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>(867,722)</u>	<u>(2,904,132)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditure on intangible assets 8	(62,496)	(27,226)
Expenditure on tangible and mining assets and related inventories	(10,462,385)	(11,357,380)
Exploration costs	<u>(7,705,784)</u>	<u>(1,814,745)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(18,230,665)</u>	<u>(13,199,351)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bonds	-	47,632,748
Loans drawdown	41,000,000	6,556,808
Loans issued 10	-	(1,650,598)
Repayment of borrowings	(12,031,803)	(20,332,189)
Receipt of loans issued	175,013	-
Interest paid	(7,506,197)	(4,322,492)
Interest received	2,554,000	628,145
Share capital issued	-	60,000
Lease capital repayments	(475,519)	(883,444)
Finance lease interest paid	<u>(57,947)</u>	<u>(170,128)</u>
<b>NET CASH FROM FINANCIAL ACTIVITIES</b>	<u>23,657,547</u>	<u>27,518,850</u>
Net increase in cash and cash equivalents	4,559,160	11,415,367
Cash and cash equivalents, at beginning of year	<u>11,492,589</u>	<u>77,222</u>
Cash and cash equivalents, at end of year	<u>16,051,749</u>	<u>11,492,589</u>

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

**ANGARA MINING PLC**  
**COMPANY STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
*(Amounts in US Dollars)*

	<b>2007</b>	<b>2006</b>
Operating cash receipts	210,000	-
Operating cash payments	(1,104,519)	(570,538)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>(894,519)</b>	<b>(570,538)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	-	(9,541)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>(9,541)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bonds	-	47,632,748
Loans issued	-	(45,879,120)
Interest received	5,969,514	3,012,776
Interest paid	(3,507,000)	(1,753,500)
Proceeds from issue of share capital	-	60,000
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>2,462,514</b>	<b>3,072,904</b>
Net increase in cash and cash equivalents	1,567,995	2,492,825
Cash and cash equivalents, at beginning of period	2,505,128	12,303
Cash and cash equivalents, at end of period	<u>4,073,123</u>	<u>2,505,128</u>

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

**ANGARA MINING PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
*(Amounts in US Dollars)*

	<b>Share Capital</b>	<b>Merger Reserve</b>	<b>Other reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
31 December 2005	20,000	3,153,920	-	(9,966,263)	(6,792,343)
Issue of share capital	60,000	-	-	-	60,000
Equity portion of convertible bonds	-	-	1,574,925	-	1,574,925
Net loss for the year	-	-	-	(10,996,637)	(10,996,637)
31 December 2006	80,000	3,153,920	1,574,925	(20,962,900)	(16,154,055)
Net loss for the year	-	-	-	(26,994,989)	(26,994,989)
<b>31 December 2007</b>	<b>80,000</b>	<b>3,153,920</b>	<b>1,574,925</b>	<b>(47,578,889)</b>	<b>(43,149,044)</b>

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

**ANGARA MINING PLC**  
**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
*(Amounts in US Dollars)*

	<b>Share Capital</b>	<b>Merger Reserve</b>	<b>Other Reserve</b>	<b>Accumulated Losses</b>	<b>Total</b>
31 December 2005	20,000	-	-	-	20,000
Issue of share capital	60,000	-	-	-	60,000
Equity portion of convertible bonds	-	-	1,574,925	-	1,574,925
Net loss for the year	-	-	-	(2,587,444)	(2,587,444)
31 December 2006	80,000	-	1,574,925	(2,587,444)	(932,519)
Net loss for the year	-	-	-	(18,730,697)	(18,730,697)
<b>31 December 2007</b>	<b>80,000</b>	<b>-</b>	<b>1,574,925</b>	<b>(21,318,141)</b>	<b>(19,663,216)</b>

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.



---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**1. THE GROUP AND ITS OPERATIONS**

Angara Mining plc ("Company") was incorporated in England & Wales on 14 July 2005 and changed its name to Angara Mining Limited on 20 July 2005. On 8 November 2005, the Company 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"):

<b>Name</b>	<b>Country of incorporation</b>	<b>Activity</b>
Brownypool Trading Limited	Cyprus	Intermediary holding company
JSC "Vasilevsky Rudnik Gold Mine"	Russian Federation	Gold mining
OOO "Angara Management"	Russian Federation	Management services
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 USD 2,106.

On 6 September 2005 Brownypool Trading Limited acquired the entire issued share capital of JSC "Vasilevsky Rudnik Gold Mine", a Russian mining company for approximately USD 1.9 million.

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

In April 2007 100% subsidiary of "Angara Mining Plc" OOO "Angara Management" was formed. The cost of the investment was 50,000 Roubles, equivalent to approximately USD 1,939.

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 13. 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.

---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**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 Gold Mine" 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 reorganisation 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 reorganisation has been accounted for using the pooling of interests method. 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***

The business of the Group is conducted within one business segment, the development, mining and processing of gold ore deposits in one geographic location, the Russian Federation. Accordingly no segmental analysis is provided.

---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**2. BASIS OF PRESENTATION (CONTINUED)**

**e) *Functional and presentation currency***

The functional and presentation currency used in the preparation of these financial statements is the United States dollar ("USD"). The directors have determined the USD as the functional currency as this represents the currency of the primary economic environment in which the group operates. In making this assessment, the directors have considered the following matters:

- A significant portion of the Group's revenues are 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***

The Company is currently in default with respect to the redemption of the bonds. Further, in order to increase the level of turnover and so move the Group towards generating a positive cash flow from operations, additional investment in the mines is required. The directors are in discussions with the bondholders and other parties that are intended to enable the default position to be rectified and for additional working capital to be provided. Whilst they have no firm commitment the directors are confident of the negotiations being concluded in Spring 2009. The negotiations may result in a change in the terms of the amounts due from the subsidiary to the Company.

The Directors have concluded that the circumstances above represent a material uncertainty that casts significant doubt upon the Group's and the Company's ability to continue as going concerns. Nevertheless, after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group and the Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

If the Group and Company were unable to continue as going concerns 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 year. 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 year of USD 1 = RUR 25.49 (2006: USD 1 = RUR 27.09). Monetary assets and liabilities have been converted to USD at a closing rate of USD 1 = RUR 24.55 (2006: USD 1 = RUR 26.33).

---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 impairment at each balance sheet date.

The useful lives, in years, of assets by type of facility are as follows:

**Type of assets**

Software	5
Licenses	Licenses period

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

Property, plant and equipment is stated at historical cost less depreciation. Cost included expenditure that is directly attributable to the acquisition of the items. Mining costs, including the costs of constructing buildings and equipment and associated finance costs are capitalised as assets under construction. Upon completion all accumulated costs of the asset are transferred to the relevant fixed asset category. No depreciation is charged on mine development costs until they are transferred to fixed assets.

Depreciation on property, plant and equipment is calculated on a straight-line basis to allocate their cost to their residual value over the estimated useful life of the asset when it is put into use. Mining assets are depreciated over the period of the useful economical life of the mines. The useful lives, in years, of assets by type of facility are as follows:

**Type of facility**

Mining Properties	30
Buildings and Constructions	30
Plant and Machinery	5-6
Other equipment and vehicles	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.

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.

**e) *Exploration and development costs***

Exploration and evaluation expenditures are capitalised when it is expected that they will be recouped by future exploitation. When the decision is made to proceed to development, the related costs are transferred to non-current assets as mining properties and depreciated over the period of the useful economical life of the corresponding mine (or pit), or until the projects are determined not to be commercially viable, whereupon the related costs are written off to the income statement. Capitalised exploration and development expenditure is reviewed for impairment at each balance sheet date.

**f) *Cash and cash equivalents***

Cash comprises cash in hand and cash deposited in banks.

---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**g) *Financing costs***

Financing costs comprise interest payable on bank loans, bonds and finance leases. Interest payable is recognised in profit or loss as it accrues, using the effective interest method unless such interest is attributable to assets under construction and qualifies for capitalisation under IAS 23.

**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 with an allowance made for impairment, if any, of these receivables. Such an allowance for doubtful debts 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, a 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 is partly processed and saleable products. Work in progress has been valued at the lower of production cost and net realisable value. Production costs include labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore and production overheads.

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) *Accounts payable and accrued charges***

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

**l) *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.

**m) *Environmental liabilities***

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

---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**n) *Deferred stripping costs***

Stripping costs incurred in the development of pit are capitalised and subsequently amortised over life of the pit on a units of production basis.

**o) *Revenue recognition***

Turnover is the total amount receivable by the Group for goods supplied, excluding value added tax ("VAT") and trade discounts. Turnover excludes any applicable sales taxes. Mining royalties are presented as an operating cost. Turnover is only recognised when persuasive evidence exists that all of the following criteria are met:

- the significant risks and rewards of ownership of the product have been transferred to buyer;
- neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, has been retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

These conditions are generally satisfied when title passes to the customer. In most instances sales revenue is recognised when the product is delivered to the customer.

Revenue from services is recognised as services are rendered.

**p) *Financial instruments***

The carrying amounts of financial assets and liabilities (comprising bank and cash balances, trade and other receivables, trade and other payables 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 20.

**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 bonds***

The Group's convertible bond was 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 current liability.

---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**s) Taxation**

Current tax is provided at amounts expected to be paid (or recovered) by using the tax rates and laws that have been enacted at the balance sheet date.

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.

**t) Investments**

Investments in subsidiaries are stated at cost less provision for any permanent diminution in value.

**u) Financial assets: Loans and receivables**

Financial assets held by the Group include amounts receivable.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified receivables. Amounts receivable are recognised and carried at original invoice amount less provision for impairment. Long-term receivables are recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Financial assets are reviewed for impairment at each balance sheet date. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

**v) *Financial liabilities and equity instruments issued by the Group***

***Classification as debt or equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

***Financial liabilities***

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss (FVTPL)" or "other financial liabilities".

***Other financial liabilities***

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Fair value is obtained through discounting future cash flows at the current market interest rate applied to financial instruments with similar terms. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. Realised and unrealised gains and losses arising from changes in the fair value are included in the financial income or expenses in the income statement in the period in which they arise.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Loans are classified as long-term liabilities if they are expected to be realised in more than 12 months of the balance sheet date.

If there is an intention to dispose of loans within 12 months after the balance sheet date, the carrying amount of loans less the appropriate adjustments may approximate their fair value.

Trade payables are not interest bearing and are recognised and carried at original invoice amount. If there is an intention to dispose of payables within 12 months after the balance sheet date, the carrying amount of payables is approximating their fair value.

***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.



---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**4. SIGNIFICANT JUDGMENTS AND ESTIMATES**

The Group makes estimates and assumptions regarding the future. Estimates and judgments are evaluated based on prior experience and other external factors. Actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

***Capitalised Mining and Exploration costs***

The Group's reserves of precious metals are estimates based upon geological studies. Over the longer term the actual mineable resources achieved may vary significantly from the current estimates. The Group periodically updates estimates of reserves and assesses those for indicators of impairment relating to its capitalised exploration and mining costs.

***Base of Mining Operations***

The Group's primary base of operations is in Russia. The laws relating to commercial operations, taxation and future dividend payments are still under development and there may be unforeseen changes to the operating and fiscal environment. The financial statements have been prepared on the assumption that no significant adverse changes to the economic, regulatory and fiscal environment will arise.

***Carrying Values of Inventory***

The Group monitors its inventory on a regular basis and, where appropriate, makes provision for slow moving and obsolete stock based on estimates of future activity. The estimate of the future activity is based on both historical experience and expected outcomes based on knowledge of the operations within the Company.

Ore included in work in progress represents ore that has been extracted and is available for further processing. Management estimates availability of ore for further processing based on cut off grade and value ore at lower of costs and net realisable value.

***Carrying Values of Tangible Assets***

The Group monitors internal and external indicators of impairment relating to its property, plant and equipment. Management has considered whether any indicators of impairment have arisen over certain assets relating to the Group's mining operations. Where there is an indication that the carrying value of items of property, plant and equipment may have been impaired through events or changes in circumstances a review will be undertaken of the recoverable amount of that assets based on value in use calculations which will involve estimates and assumptions to be made by management. Actual results may vary from the estimates, and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

***Useful Lives of Intangible Assets and Tangible Assets***

Intangible assets and tangible assets are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long lives of certain assets, changes to the estimates used can result in significant variations in the carrying value.

---

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

---

**4. SIGNIFICANT JUDGMENTS AND ESTIMATES (CONTINUED)**

***Income Taxes***

The Group is subject to income tax in Russia and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Group believes that its accruals for tax liabilities are adequate for all years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different to the amounts recorded, such differences will impact income tax expense in the period in which such determination is made. The carrying amount of deferred tax assets is reviewed at the end of the each reporting period. Where it is no longer probable that sufficient taxable profit will be available to allow the benefits of part of that deferred tax asset to be utilised, deferred tax assets are reduced.

***Legal Proceedings***

In accordance with IFRS the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In circumstances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

***Provisions for close down and restoration and for environmental clean up costs***

Significant uncertainty exists as to the amount of rehabilitation obligations which may be incurred due to the impact of possible changes in environmental legislation. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result there could be a significant adjustment to the provision for close down and restoration which would affect future results.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**5. TANGIBLE ASSETS**

<b>GROUP</b>	<b>Buildings and constructions</b>	<b>Plant and machinery</b>	<b>Other equipment and vehicles</b>	<b>Mining Properties</b>	<b>Total</b>
<b>Cost</b>					
As at 1 January 2006	4,698	5,562,273	725,844	-	6,292,815
Additions	-	-	28,084	-	28,084
Transfer from assets under construction (see note 6)	1,112,809	6,422,142	3,450,319	43,993,002	54,978,272
As at 1 January 2007	1,117,507	11,984,415	4,204,247	43,993,002	61,299,171
Transfer from assets under construction (see note 6)	3,323,142	3,123,342	3,262,442	925,206	10,634,132
Disposals	-	(38,640)	(7,744)	-	(46,384)
As at 31 December 2007	4,440,649	15,069,117	7,458,945	44,918,208	71,886,919
<b>Accumulated depreciation</b>					
As at 1 January 2006	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 1 January 2007	27,274	2,468,073	693,427	1,466,433	4,655,207
Depreciation charge	92,636	2,406,431	1,104,437	1,443,817	5,047,321
Disposals	-	(150)	(2,124)	-	(2,274)
As at 31 December 2007	119,910	4,874,354	1,795,740	2,910,250	9,700,254
<b>Net book value at 31 December 2005</b>	<b>3,704</b>	<b>4,364,426</b>	<b>554,101</b>	<b>-</b>	<b>4,922,231</b>
<b>Net book value at 31 December 2006</b>	<b>1,090,233</b>	<b>9,516,342</b>	<b>3,510,820</b>	<b>42,526,569</b>	<b>56,643,964</b>
<b>Net book value at 31 December 2007</b>	<b>4,320,739</b>	<b>10,194,763</b>	<b>5,663,205</b>	<b>42,007,958</b>	<b>62,186,665</b>

Included in tangible assets are assets with a net book value of USD 10,919,352 (2006: USD 13,646,691) used as a security by Gazprombank.

Included in plant and machinery and other equipment are assets held under finance leases with a net book value of USD 1,392,569 (2006: USD 1,678,295) on which depreciation charged during the year was USD 285,726 (2006: USD 326,182)

The fixed assets for the company comprise office equipment.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**6. ASSETS UNDER CONSTRUCTION**

**Cost**

As at 1 January 2006	51,607,732
Additions	4,784,332
Transfer to tangible assets (see note 5)	<u>(54,978,272)</u>
As at 1 January 2007	1,413,793
Additions	10,630,345
Transfer to tangible assets (see note 5)	<u>(10,634,132)</u>
<b>As at 31 December 2007</b>	<b><u>1,410,006</u></b>

**7. EXPLORATION COSTS**

**Cost**

As at 1 January 2006	-
Additions	1,842,326
Write off	<u>(27,581)</u>
As at 1 January 2007	1,814,745
Additions	8,045,803
Write off	<u>(340,019)</u>
<b>As at 31 December 2007</b>	<b><u>9,520,529</u></b>

Exploration and development costs mainly comprise expenses on geological works in the licensed areas.

**8. INTANGIBLE ASSETS**

**Cost**

As at 1 January 2006	187,238
Additions	49,851
As at 1 January 2007	237,089
Additions	<u>62,496</u>
<b>As at 31 December 2007</b>	<b><u>299,585</u></b>

**Accumulated amortisation**

As at 1 January 2006	26,193
Amortisation charge	<u>22,625</u>
As at 1 January 2007	48,818
Amortisation charge	<u>44,236</u>
<b>As at 31 December 2007</b>	<b><u>93,054</u></b>
<b>Net book value at 31 December 2006</b>	<b><u>188,271</u></b>
<b>Net book value at 31 December 2007</b>	<b><u>206,531</u></b>

Intangibles mainly comprise expenses incurred in obtaining licenses and geological software.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**9. INVENTORIES**

	<b>2007</b>	<b>2006</b>
Construction materials and consumables	1,346,778	1,362,982
Fuel	470,808	513,110
Chemicals	1,316,773	742,442
Work in progress (gold ore)	2,485,031	1,593,285
Goods for sale (gold)	737,676	558,055
Spare parts	1,959,004	743,408
Other materials	2,004,215	1,558,859
	<u>10,320,285</u>	<u>7,072,141</u>

**10. TRADE AND OTHER RECEIVABLES**

	<b>2007</b>	<b>2006</b>
VAT recoverable	6,222,460	4,384,346
Loan issued (see below)	1,523,394	1,650,598
Trade debtors	467,554	75,149
Other debtors	1,092,790	485,241
Deferred expenses	-	538,690
Prepaid expenses	3,197,456	4,315,508
	<u>12,503,654</u>	<u>11,449,532</u>

Prepayments represent advances to suppliers paid in the normal course of business.

In July 2006 a loan to OOO "Spetzplast" was issued. The loan bears interest rate at 13.5% and was due for repayment on 31 December 2007. The loan has been fully repaid in March 2008. There are no other amounts that are past due.

**Company**

	<b>2007</b>	<b>2006</b>
Amounts owed by subsidiary undertaking	47,721,054	47,546,404
Other debtors	47,809	26,419
Prepaid expenses	11,385	10,118
	<u>47,780,248</u>	<u>47,582,941</u>

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.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**11. SHARE CAPITAL**

Group and Company

**31 December 2007 and 2006**

Ordinary shares of £1 each	<u>Number of Shares</u>	<u>£</u>	<u>USD</u>
Authorised	<u>50,000</u>	<u>£ 50,000</u>	<u>USD 80,000</u>
Issued, allotted & paid up	<u>50,000</u>	<u>£ 50,000</u>	<u>USD 80,000</u>

**12. CONVERTIBLE BONDS**

	<u>2007</u>	<u>2006</u>
Convertible bonds	<u>70,140,000</u>	<u>50,112,530</u>

The convertible bonds were issued in April 2006. They bear interest at 7% and are secured by pledges over 27.55% of the ordinary shares of the main subsidiaries of the Company, Brownypool Trading Limited and JSC "Vasilevsky Rudnik Gold Mine". The original agreement provided that should the Company list its shares before 10 February 2008 the bondholders would 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). Should the Company not list its shares, the bonds would be redeemed at 140% of principal value on 10 April 2008.

In March 2008 the Company renegotiated the agreement with bondholders. The maturity date was amended to 10 October 2008. This deadline was also not met and the Company has not redeemed the convertible bonds, and it is therefore in default.

The Board as at 31 December 2007 had assessed and concluded that no IPO would be completed by 10 February 2008. In the event that no IPO occurred before 10 February 2008, the bonds would have been repayable on the Maturity Date at 140 per cent of their principal amount. As a result of this assessment, full provision for repayment of 140% of the bond has been recognized in the 2007 financial statements.

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

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**13. LOANS PAYABLE**

<b>Lender and terms</b>	<b>2007</b>	<b>2006</b>
Borussia Consultancy Limited Currency: US Dollars Interest: 12% Maturity: 1 April 2010	5,700,000	5,700,000
Macro-Invest Ltd. Currency: Roubles (R 1 billion) Interest : 14% Maturity : 1 September 2009	-	16,425,539
Gazprombank Currency: US Dollars Interest : 10.3% Amount drawdown: USD 31 million Maturity : 29 January 2010	29,500,000	-
Ministry of Finance of the Russian Federation Currency: US Dollars Interest and Penalties Capitalised Interest : 1% Maturity : 31 December 2015	19,676,722 7,895,915	20,208,525 7,895,915
<b>Total</b>	<b>62,772,637</b>	<b>50,229,979</b>

**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. The loan was originally due for repayment by 30 September 2005 but this was extended to 1 September 2009 and as such was classified as long-term liabilities in 2006.

In 2007 the total debt due to Macro-invest has been converted to promissory notes which have been used by Gazprombank as a collateral for loans provided to the Company. Promissory notes are payable on demand and bear interest at a rate of 11.55% per annum.

**Gazprombank**

In January 2007 a loan was received from Gazprombank of USD 10,000,000 with an interest rate of 9%. It has been repaid in accordance with the schedule during 2007.

In July 2007 a loan was received from Gazprombank of USD 31,000,000. The loan has equipment as a collateral and bears interest at a rate of 10.5%. The loan has tangible assets (Note 5), promissory notes (see above) and pledges of shares in JSC "Vasilevsky Rudnik Gold Mine" as collateral. Shareholders of the Group, V. Preys, I. Preys and P. Golovinov, have issued personal guarantees in respect of this loan.

**Borussia Consultancy Limited loan**

The loan is unsecured with interest rate of 12% payable quarterly.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**13. LOANS PAYABLE (CONTINUED)**

***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, with repayment in gold of the same quantity. 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.

Interest on the Principal at 1% per annum must be paid by 31 December of each year. 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.

<b>Breakdown of loans per maturity</b>	<b>2007</b>	<b>2006</b>
Repayable within 1 year	13,031,803	531,803
	<u>13,031,803</u>	<u>531,803</u>
Repayable in 1 to 2 years	16,095,410	531,803
Repayable in 2 to 3 years	9,795,410	1,595,410
Repayable in 3 to 4 years	1,595,410	7,295,410
Repayable in 4 to 5 years	1,595,410	18,020,949
Repayable in 5 years or more	20,659,194	22,254,604
	<u>49,740,834</u>	<u>49,698,176</u>
<b>Total</b>	<b><u>62,772,637</u></b>	<b><u>50,229,979</u></b>

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.

**14. OTHER PAYABLES**

	<b>2007</b>	<b>2006</b>
Non-profit based taxes, and pension liabilities	1,146,216	743,326
Wages creditors	1,096,794	542,976
Current portion of finance leases (see note 16)	-	417,572
Promissory notes payable (see note 13)	16,151,991	-
Accruals	808,278	193,898
Other payables	996,207	370,892
Interest payable	908,402	858,154
	<u>21,107,888</u>	<u>3,126,818</u>

Details of interest payable are set out in note 13 - loans payable, and note 22 - related parties.

**Company**

	<b>2007</b>	<b>2006</b>
Interest on convertible bonds	778,265	847,525
Other creditors	525,128	31,069
	<u>1,303,393</u>	<u>878,594</u>



**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**15. DEFERRED INCOME TAX ASSET**

Deferred tax assets and liabilities are attributable to the following items:

	<b>Assets</b> <b>2007</b>	<b>2006</b>
Fixed assets	6,940,777	4,858,881
Receivables	152,940	-
Other items	278,306	498,695
<b>Total assets</b>	<b>7,372,023</b>	<b>5,357,576</b>
	<b>Liabilities</b> <b>2007</b>	<b>2006</b>
Inventories	-	(40,649)
Receivables	-	(173,712)
<b>Total liabilities</b>	<b>-</b>	<b>(214,361)</b>
	<b>Net</b> <b>2007</b>	<b>2006</b>
Fixed assets	6,940,777	4,858,881
Inventories	152,940	(40,649)
Receivables	278,306	(173,712)
Other items	-	498,695
<b>Total assets</b>	<b>7,372,023</b>	<b>5,143,215</b>

Movement in temporary differences can be summarized as follows:

	<b>Total</b>
Asset at 31 December 2006	5,143,215
Credit for the year	2,228,808
<b>Asset at 31 December 2007</b>	<b>7,372,023</b>

No deferred tax asset has been recognised in respect of the carried forward tax losses of approximately USD 17,800,000 arising in the Company as the recoverability of these assets in future periods is uncertain.

All deferred tax balances are attributable to Vasilevsky Rudnik. There is no deferred tax balances in respect of the other group companies.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**16. FINANCE LEASES**

During 2004 the Group entered into a number of finance lease transactions. As at 31 December 2007 the Group had repaid all obligations under these finance leases. 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 22).

	Minimum Lease Payments	Present Value of Minimum Lease Payments	Minimum Lease Payments	Present Value of Minimum Lease Payments
	2007	2007	2006	2006
Within 1 year	-	-	475,519	417,572
Total	-	-	475,519	417,572
Less: future finance charges	-	-	(57,947)	-
Present value of finance lease obligations	-	-	417,572	-

**17. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administration expenses consist of the following:

	2007	2006
Legal and professional fees	890,210	573,327
Wages and salaries	3,872,216	2,616,383
Rent	670,506	412,097
Transportation costs	867,598	741,355
Bond issue and listing costs	643,000	932,734
Bank charges	196,093	179,414
Other expenses	3,569,594	1,800,127
	<b>10,709,218</b>	<b>7,255,437</b>

**Company**

	2007	2006
Legal and professional fees	685,098	289,407
Bond issue and listing costs	643,000	14,955
Wages and salaries	76,373	21,868
Rent	124,355	54,207
Other expenses	100,591	15,590
	<b>1,629,417</b>	<b>396,027</b>

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**18. INTEREST RECEIVABLE**

	<u>2007</u>	<u>2006</u>
Interest receivable on deposits	2,324,405	521,953
Interest on loan issued	229,594	106,192
	<u>2,553,999</u>	<u>628,145</u>

**Company**

	<u>2007</u>	<u>2006</u>
Interest on loan issued to Vasilevsky Rudnik Gold Mine	5,995,386	4,297,554
Other interest	48,224	30,633
	<u>6,043,610</u>	<u>4,328,187</u>

**19. INTEREST PAYABLE**

	<u>2007</u>	<u>2006</u>
Interest on convertible bonds	8,652,048	6,716,703
Interest expense	4,791,534	2,913,142
	<u>13,443,582</u>	<u>9,629,845</u>

**Company**

	<u>2007</u>	<u>2006</u>
Interest on convertible bonds	<u>8,652,048</u>	<u>6,716,703</u>

**20. TAXATION**

	<u>2007</u>	<u>2006</u>
Current tax charge (see below)	-	13,800
Foreign deferred tax credit (see note 15)	(2,228,808)	(2,420,207)
	<u>(2,228,808)</u>	<u>(2,406,407)</u>

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**20. TAXATION (CONTINUED)**

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

	<b>2007</b>	<b>2006</b>
Accounting loss before taxation	(29,233,797)	(13,403,044)
Tax losses not recognised	18,334,262	2,590,444
Expenses not deductible for tax purposes	10,899,535	10,870,100
<b>Taxable profit</b>	<b>-</b>	<b>57,500</b>
 <b>Profit tax at 24%</b>	 <b>=</b>	 <b>13,800</b>

**21. COMMITMENTS AND CONTINGENCIES**

**Commitments**

The Group was entered into an agreement with OAO Krasnoyarsk Non-Ferrous Metals Plant for the refining of the Group's gold, which agreement expired on 31 December 2008. The agreement required the Group to supply 1,960 kg of gold in 2008 for refining. During 2008 1,088 kg of gold were supplied, which although below the prescribed amount was not in violation of the agreement. 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.

As part of loan agreement with Gazprombank the Group should have sold 1,960 kg of gold in 2008 and should sell 1,984 kg of gold in 2009 to the lender and convert loan of Angara Mining Plc to JSC Vasilevsky Rudnik dated 10 April 2006 in amount of 47,632,748 USD to share capital of JSC Vasilevsky Rudnik not later than 30 September 2007. The Company has failed to meet this. Management believes that Gazprombank would not charge any claims or penalties from Gazprombank side.

Claims currently not resolved at the courts or claims for unpaid salary to staff are contingent liabilities and their inclusion in the financial statements will be assessed on the normal contingent liability basis. These claims amount to RUR 8,956,855 (USD 351,332), but have not yet been resolved. In previous cases the court has always sided with the employee and the Company has been ordered to pay. The unified social tax on this unpaid salary would be USD 91,346.

**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.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**21 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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.

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 the accompanying financial statements; however, the risk remains that those relevant authorities could take different positions with regard to interpretive issues.

**22. RELATED PARTY BALANCES AND TRANSACTIONS**

<b>Group</b>	<b>2007</b>	<b>2006</b>
<b>Macro-Invest Ltd.</b>		
Loans payable as at 31 December	-	16,425,539
Repayment of borrowings during the year, net of exchange movements	(1,384,900)	(18,598,946)
Borrowings received during the year, net of exchange movements	-	2,349,997
Loan converted to promissory notes	15,238,228	-
Promissory notes payable as at 31 December	16,151,991	-
Interest accrued as at 31 December	4,542,211	3,925,983
Interest charged during the year, net of exchange movements	1,830,534	3,292,656
Interest paid during the year, net of exchange movements	(1,512,084)	(2,542,094)

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**22. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**

**ZKB Monolit.**

Borrowings received during the year, net of exchange movements	2,456,827	-
Borrowings repaid during the year, net of exchange movements	(2,456,827)	
Interest charged during the year	5,140	-
Interest paid during the year, net of exchange movements	(5,140)	-

**Borussia Consultancy Limited**

Loan payable as at 31 December	5,700,000	5,700,000
Borrowings received during the year, net of exchange movements	-	
Interest accrued as at 31 December	74,960	43,310
Interest charged during the year	684,000	45,589
Interest paid during the year	(652,350)	-

**Samson**

Accounts receivable as at 31 December	72,747	252,707
Purchase of materials	(308,018)	(802,391)
Purchase of equipment	-	(337,620)
Finance lease payable as at 31 December	-	171,638
Finance lease repayments during the year, net of exchange movements	(171,638)	(316,492)
Interest charged/accrued during the year	18,585	56,783
Interest paid during the year	(85,557)	(56,783)
Finance lease interest accrued as at 31 December	-	(66,992)

**Transbiznesinvest**

Trade and other payables at 31 December	291,379	271,628
--	---------	---------

**Spetzplast**

Loan issued as at 31 December	1,475,585	1,650,598
Loan repayments during the year, net of exchange movement	175,013	-
Interest accrued during the year	229,594	106,192
Balance as at 31 December	335,787	106,192

**Company**

**Management**

Remuneration of key members of management for services as management.	117,527	32,436
---	---------	--------

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**22. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**

All companies noted above are under the control of the Group's current ultimate controlling parties. Certain members of the Management Board, including the ultimate controlling shareholders, have provided services to the Company during the year ended 31 December 2007 and 2006 for no consideration.

As part of the loan agreement with Gazprombank shareholders of the Group have issued personal guarantees in respect of the facilities provided by the bank.

**23. 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 17,109,930 at 31 December 2007 (2006: USD 16,416,029) using a discount rate of 13%, being the average market rate for similar loans.

**24. CURRENCY ANALYSIS**

	<b>31 December 2006</b>		
	RUR	Denominated in USD	Total
Cash and cash equivalents	8,951,650	2,540,939	11,492,589
Trade and other receivables	10,804,879	644,653	11,449,532
Convertible 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	65,975	2,268,664

	<b>31 December 2007</b>		
	RUR	Denominated in USD	Total
Cash and cash equivalents	8,942,726	7,109,023	16,051,749
Trade and other receivables	12,435,164	68,490	12,503,654
Convertible bonds		70,140,000	70,140,000
Loans		62,772,637	62,772,637
Accrued interest	4,542,211	908,402	5,450,613
Payable to contractors	4,157,751	-	4,157,751
Other payables	19,583,321	616,164	20,199,485

**25. AVERAGE NUMBER OF EMPLOYEES**

	<b>2007</b>	<b>2006</b>
Average number of employees	1,001	1,089

**26. EVENTS AFTER THE BALANCE SHEET DATE**

Details of the Group's and Company's going concern consideration are set out in Note 3 a) and of the bond default are set out in Note 12. Details of the operating results since the balance sheet date are set out in the Directors' Report.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

**Capital Risk Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to optimise the weighted average cost of capital and tax efficiency subject to maintaining sufficient financial flexibility to undertake its investment plans.

The capital structure of the Group at 31 December 2007 consists of cash and cash equivalents, borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

	<b>2007 USD</b>	<b>2006 USD</b>
Share capital	80,000	80,000
Merger reserve	3,153,920	3,153,920
Other reserve	1,574,925	1,574,925
Accumulated losses	(50,186,697)	(20,962,900)
Borrowings		
- long term borrowings	49,740,834	49,698,176
- convertible bonds	70,140,000	50,112,530
<b>Total capital</b>	<b>74,502,982</b>	<b>83,656,651</b>

**Significant Accounting Policies**

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

**Categories of Financial Instruments**

**Group**

<b>Class/Category</b>	<b>2007 USD Measured at amortised cost <i>Loans and receivables, including cash</i></b>	<b>2006 USD Measured at amortised cost <i>Loans and receivables, including cash</i></b>
<b>Class/categories</b>		
<b>Financial assets</b>		
Cash	16,051,749	11,492,589
Trade receivables	12,503,654	11,449,532
<b>Total financial assets</b>	<b>28,555,403</b>	<b>22,942,121</b>
<b>Financial liabilities</b>		
Trade and other payables	(25,462,609)	(7,103,813)
Borrowings		
- short term borrowings	(13,031,803)	(531,803)
- long term borrowings	(49,740,834)	(49,698,176)
- convertible bonds	(70,140,000)	(50,112,530)
<b>Total financial liabilities</b>	<b>(158,375,246)</b>	<b>(107,446,322)</b>

All financial assets are not past due and do not have any collateral.



**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Company**

<b>Class/Categories</b>	<b>2007 USD Measured at amortised cost  Loans and receivables, including cash</b>	<b>2006 USD Measured at amortised cost  Loans and receivables, including cash</b>
<b>Class/categories</b>		
<b>Financial assets</b>		
Cash at bank	4,073,123	2,505,128
Trade receivables	47,780,248	47,582,941
<b>Total financial assets</b>	<b>51,853,371</b>	<b>50,088,069</b>
<b>Financial liabilities</b>		
Trade and other payables	(1,583,738)	(919,705)
Borrowings		-
- convertible bonds	(70,140,000)	(50,112,530)
<b>Total financial liabilities</b>	<b>(71,723,738)</b>	<b>(51,032,235)</b>

All financial assets are not past due and do not have any collateral.

**Financial Risk Management**

The Group's activities expose it to interest rate risk, foreign currency risk, risk of change in the gold price, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**Interest rate risk**

The Group is exposed to interest rate risk through the holding of cash and cash equivalents, and borrowings. This exposure is limited, as all of the Group's borrowings have fixed interest rates attached, as do the majority of cash and cash equivalents held by the Group.

If interest rates had been 1% higher/lower and all other variables held constant, the Group's loss for the year ended 31 December 2007 would increase/decrease by USD 1,813,803 (2006: loss would increase/decrease by USD 922,798).

If interest rates had been 1% higher/lower and all other variables held constant, the Company's loss for the year ended 31 December 2007 would increase/decrease by USD 1,214,776 (2006: loss would increase/decrease by USD 786,825).

**Exchange rate risk**

The Group undertakes certain transactions denominated in foreign currencies, namely US Dollars, GB Pounds Sterling and Russian Roubles, and is therefore exposed to exchange rate risk associated with fluctuations in the relative values of US Dollars, GB Pounds Sterling and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging but it may do so in future for material transactions.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are shown in note 23.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)**

The following table illustrates the Group's sensitivity to the fluctuation of the major currencies in which it transacts. A 5% percentage movement has been applied to each currency in the table below, representing management's assessment of a reasonably possible change in foreign currency rates.

	<b>Russian Roubles</b>	
	<b>currency impact</b>	
	<b>2007</b>	<b>2006</b>
	<b>USD</b>	<b>USD</b>
Income statement	979,166	110,134

The Company's income statements are not affected by fluctuation of the exchange rate of Russian Rouble.

**Credit risk**

The Group's principal financial assets are cash and cash equivalents, comprising current accounts, amounts held on deposit with financial institutions and investments in money market and liquidity funds. In the case of deposits and investments in money market and liquidity funds, the Group is exposed to a credit risk, which results from the non-performance of contractual agreements on the part of the contract party.

The credit risk on liquid funds held in current accounts, totalling USD16,051,749 at 31 December 2007 (2006: USD11,492,589), is limited because the counterparties are generally banks with high credit-ratings.

**Liquidity risk**

Liquidity risk is the risk that suitable sources of funding for the company's business activities may not be available. The company believes it has access to sufficient funding to meet currently foreseeable borrowings requirements.

Effective management of liquidity risk has the objective of ensuring the availability of adequate funding to meet short term requirements and due obligations as well as the objective of ensuring a sufficient level of flexibility in order to fund the development plans of the company's businesses.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
(Amounts in US Dollars)

**27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)**

The table below analysis the Group's financial liabilities which will be settled on a gross basis into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

**Group**

<b>31 December 2007</b>	<b>Convertible bonds</b>	<b>Loans</b>	<b>Trade and other payables</b>	<b>Total</b>
Less than 1 year	70,140,000	13,031,803	9,113,648	92,285,451
Between 1 and 2 years	-	16,095,410	-	16,095,410
Between 2 and 3 years	-	9,795,410	16,151,991	25,947,401
Between 3 and 4 years	-	1,595,410	-	1,595,410
Between 4 and 5 years	-	1,595,410	-	1,595,410
After 5 years	-	20,659,194	-	20,659,194
<b>Total</b>	<b>70,140,000</b>	<b>62,772,637</b>	<b>25,265,639</b>	<b>158,178,276</b>

**31 December 2006**

Less than 1 year	-	531,803	7,103,813	7,635,616
Between 1 and 2 years	50,112,530	531,803	-	50,644,333
Between 2 and 3 years	-	1,595,410	-	1,595,410
Between 3 and 4 years	-	7,295,410	-	7,295,410
Between 4 and 5 years	-	18,020,949	-	18,020,949
After 5 years	-	22,254,604	-	22,254,604
<b>Total</b>	<b>50,112,530</b>	<b>50,229,979</b>	<b>7,103,813</b>	<b>107,446,322</b>

**Company**

<b>31 December 2007</b>	<b>Convertible bonds</b>	<b>Trade and other payables</b>	<b>Total</b>
Less than 1 year	70,140,000	1,386,768	71,526,768
<b>Total</b>	<b>70,140,000</b>	<b>1,386,768</b>	<b>71,526,768</b>

**31 December 2006**

Less than 1 year	-	919,705	919,705
Between 1 and 2 years	50,112,530	-	50,112,530
<b>Total</b>	<b>50,112,530</b>	<b>919,705</b>	<b>51,032,235</b>

**28. DIRECTORS' AND KEY MANAGEMENT REMUNERATION**

Aggregate remuneration, calculated in accordance with the Companies Act 1985, of the directors of the parent company was as follows:

	<b>2007</b>	<b>2006</b>
Emoluments	117,527	32,436

For 2007, a total of USD 94,225 (2006: USD 32,436) was attributable to the highest paid director in respect of the aggregate amounts disclosed in the above table.

**ANGARA MINING PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

(Amounts in US Dollars)

**29. AUDITORS' REMUNERATION**

	<b>2007</b>	<b>2006</b>
Group auditors' remuneration	124,473	33,524
Remuneration payable to other accounting firms	2,745	2,500
	<u>127,218</u>	<u>36,024</u>

**30. 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 2007. 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:

- IAS 1 (revised) Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009);
- IAS 23 (revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 12: Service concession arrangements (effective 1 January 2008),
- IFRIC 13 Customer loyalty programmes (effective for accounting periods beginning or after 1 July 2008) and
- IFRIC14; IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2008).

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 format changes made under IAS 1 (revised). The directors have yet to determine what the impact of these would be on the group.