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ANGARA MINING PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2008

Angara Mining Plc

Directors

V Preys	
J Fairley	
P Golovinov	
T Wilkinson	(resigned 21 November 2008)
S Leighton	(resigned 14 October 2008)
V Popov	(appointed 28 May 2008 resigned 26 January 2009)
A Dydychkin	(appointed 28 May 2008)
I Preys	

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 financial statements of the Company for the year ended 31 December 2008

Principal Activity

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

Directors

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

Results and Dividends

During 2008 the Company only source of revenue was provision of the consultancy services to subsidiary

The Company's turnover totalled USD 360,000 which is same as in 2007

The Company's operating losses decreased by 0 9% and reached USD 1,321,216 The Company reported a net loss for the 12 months 2008 of USD 306,554 Losses were primarily due to increase in number of employees and significant costs connected with the attempt of the Company to list its shares on AIM Unfortunately due to the financial crisis at the time, this attempt was unsuccessful and all costs were absorbed by the Company without any corresponding increase in turnover

The Company long term assets stayed on the same level comparing to 2007 The only change is due to depreciation charged during the period The Company retained cash balances of USD 1,836,016 at the end of the period most of which are held on short term deposits

The Company's subsidiary, Brownypool Trading Limited, is in an advanced stage of selling its shareholding in JSC "Vasilevsky Rudnik Gold Mine" – "VRG" as part of a proposed transaction outlined below, which will result in the assignment of the Company's obligation in respect of the convertible bonds and the corresponding amounts due from its subsidiaries

GazpromBank, a Russian owned bank, and one of its wholly owned subsidiaries will convert 100% of the convertible bonds issued by the Company in 2006 including accrued interest together with the Company's loan provided to VRG in 2006, its Russian subsidiary, including accrued interest into a majority shareholding in VRG The proposed transaction is currently awaiting approval by the Federal Antimonopoly Service of the Russian Federation and the transaction is expected to be completed before the end of May 2010

The directors do not recommend a dividend for the year (2007 – nil) and the loss for the year has been added to accumulated losses The preparation of consolidated financial statements is deemed by the directors to be unnecessary due to the current status of the above mentioned proposed transaction Following the completion of this transaction it is expected that the Company will be placed into a members voluntary liquidation as soon as possible

Financial Risk Management

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

Currency Risk

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

Liquidity Risk

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably The Company is dependent on the successful outcome of the proposed transaction as outlined on page 2

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

There is a risk that significant part of the trade receivables would not be redeemed due to the fact that most of them related to a subsidiary which has liquidity problems The maximum exposure to credit risk is represented by the carrying amount of each financial asset namely the amounts due from its subsidiaries The recovery of the amounts due from subsidiaries is dependent on the successful outcome of the proposed transaction as outlined on page 2

Concentration of credit risk

Exposure arises due to concentration of sales to one customer, namely the Company's subsidiary

Creditor Payment Policy

It is the Company's policy to comply with the terms of payment agreed with its suppliers Where payment terms are not negotiated the Company endeavours to adhere to suppliers' standard terms which is normally 30 days after delivery Economic events have adversely affected the ability of the Company to adhere to its policy

Internal Controls

The Board acknowledges that it is responsible for establishing and maintaining the Company's system of internal controls and for reviewing its effectiveness The procedures which include, inter alia, financial, operational and compliance mattes 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

Report of the Directors (Continued)

Going Concern

The Company is currently in default with respect to the redemption of the bonds The directors are in discussions with the bondholders and other parties that are intended to enable the default position to be rectified, as outlined on page 2 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 Company will have adequate resources to fulfill all its obligations before closure of the Company

Subsequent Events

Details are reported in note 19

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

By Order of the Board on 2nd April 2010

J FAIRLEY Director

Angara Mining Plc

Statement of Directors' Responsibilities
For the year ended 31 December 2008

The directors have prepared and are responsible for the Company's 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 are required to

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

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

Independent Auditors' Report to the Shareholders of Angara Mining Plc

We have audited the company financial statements (the "financial statements") of Angara Mining plc for the year ended 31 December 2008 which are set out pages 8 to 25 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 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 (continued)

Adverse opinion on financial statements

The company has not complied with S227 of the Companies Act 1985 or International Accounting Standard 27 ("IAS27 - Consolidated and Separate Financial statements") which requires the parent company to prepare consolidated financial statements for the year ended 31 December 2008

In view of the effect of the failure to comply with the Companies Act 1985 or International Accounting Standard 27 referred to above, in our opinion the financial statements

- do not give a true and fair view, of the state of the group's affairs as at 31 December 2008 and of the group's loss for the year then ended,
- have not been properly prepared in accordance with International Financial Reporting Standards (IFRS's) as adopted by the EU

With regards to the parent company's financial statements, in our opinion they give a true and fair view, of the state of the parent company's affairs as at 31 December 2008 and of the parent company's loss for the year then ended

Opinion on other matter prescribed by the Companies Act 1985

Notwithstanding our adverse opinion on the financial statements, in our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Emphasis of matter - Going Concern

We have considered the adequacy of the disclosures made in note 3(a) of the financial statements concerning the uncertainty as to the continuation of the company as a going concern The company has net liabilities at 31 December 2008 of USD 19,969,770 but it is currently in an advanced stage of negotiating a transaction to sell the company's effective interest in its subsidiaries, which will result in the assignment of the Company's obligation in respect of the convertible bonds and the corresponding amounts due from its subsidiaries These matters indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

Moore Stephens LLP

St Paul's House
Warwick Lane
LONDON EC4M 7BP

Moore Stephens LLP
Registered Auditors
Chartered Accountants

7 April 2010

ANGARA MINING PLC
COMPANY BALANCE SHEET AS AT 31 DECEMBER 2008
(Amounts in US Dollars)

	Notes	2008	2007
NON-CURRENT ASSETS			
Property, plant and equipment	5	2,731	6,136
Investment in subsidiary undertakings	1,6	-	4,045
Total non-current assets		2,731	10,181
CURRENT ASSETS			
Trade and other receivables	7	53,957,984	47,780,248
Cash and cash equivalents	9	1,836,016	4,073,123
Total current assets		55,794,000	51,853,371
Total assets		**55,796,731**	**51,863,552**
SHAREHOLDERS' EQUITY			
Share capital	8	80,000	80,000
Other reserve	9	1,574,925	1,574,925
Accumulated losses		(21,624,695)	(21,318,141)
Total shareholders' equity		(19,969,770)	(19,663,216)
CURRENT LIABILITIES			
Convertible bonds	9	70,140,000	70,140,000
Trade payables		729,478	83,375
Other payables	10	4,897,023	1,303,393
Total current liabilities		75,766,501	71,526,768
Total liabilities and shareholder's equity		**55,796,731**	**51,863,552**

These financial statements were approved by the Board of Directors and authorised for issue on 2nd April 2010 and were signed on their behalf by

J. Fairley
Director

The accompanying notes form an integral part of these financial statements

ANGARA MINING PLC
COMPANY INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in US Dollars)

	Notes	2008	2007
Turnover	3 (j)	360,000	360,000
Net operating expenses		(43,536)	(39,680)
Gross profit		**316,464**	**320,320**
General and administrative expenses	11	(1,637,680)	(1,629,417)
Loss from operations	22	**(1,321,216)**	**(1,309,097)**
Bond redemption charge	9	-	(14,813,162)
Provision against investments in subsidiaries	6	(4,045)	-
Interest receivable	12	6,362,080	6,043,610
Interest payable	13	(5,335,307)	(8,652,048)
Loss before tax		**(298,488)**	**(18,730,697)**
Taxation	14	8,066	-
Net loss for the year		**(306,554)**	**(18,730,697)**

The accompanying notes form an integral part of these financial statements

ANGARA MINING PLC
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in US Dollars)

	2008	2007
Operating cash receipts	220,000	210,000
Operating cash payments	(1,014,107)	(1,104,519)
NET CASH USED IN OPERATING ACTIVITIES	**(794,107)**	**(894,519)**
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Loans issued	(38,000)	-
NET CASH USED IN INVESTING ACTIVITIES	**(38,000)**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest received	348,499	5,969,514
Interest paid	(1,753,499)	(3,507,000)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	**(1,405,000)**	**2,462,514**
Net (decrease)/increase in cash and cash equivalents	(2,237,107)	1,567,995
Cash and cash equivalents, at beginning of period	4,073,123	2,505,128
Cash and cash equivalents, at end of period	1,836,016	4,073,123

The accompanying notes form an integral part of these financial statements

ANGARA MINING PLC
COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in US Dollars)

	Share Capital	**Other Reserve**	**Accumulated Losses**	**Total**
31 December 2006	80,000	1,574,925	(2,587,444)	(932,519)
Net loss for the year	-	-	(18,730,697)	(18,730,697)
31 December 2007	80,000	1,574,925	(21,318,141)	(19,663,216)
Net loss for the year	-	-	(306,554)	(306,554)
31 December 2008	80,000	1,574,925	(21,624,695)	(19,969,770)

The accompanying notes form an integral part of these financial statements

1. THE COMPANY 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")

Name	Country of incorporation	Activity
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" which it sold on 26 March 2009 In April 2008 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 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

2. BASIS OF PRESENTATION

a) *Accounting framework*

These financial statements have been prepared in United States Dollars

These financial statements have not been prepared in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the EU The Company has not complied with S227 of the Companies Act 1985 or International Accounting Standard 27 ("IAS27 - Consolidated and Separate Financial statements") which requires the parent company to prepare consolidated financial statements for the year ended 31 December 2008, because consolidation of the Company's subsidiaries is considered not to be beneficial by the directors at this time On completion of the proposed transaction described in the directors' report and in note 3(a) to the financial statements, the Company will be placed into a members voluntary liquidation as soon as possible

b) *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

c) *Segmental information*

The business of the Company is conducted within one business segment, the provision of management services to its subsidiary Accordingly no segmental analysis is provided

2 BASIS OF PRESENTATION (CONTINUED)

d) *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 Company operates In making this assessment, the directors have considered the following matters

- The Company's revenues are invoiced in USD,
- The Company's activity is primarily financed by USD bonds

3. SIGNIFICANT ACCOUNTING POLICIES

a) *Going concern*

The Company is currently in default with respect to the redemption of the bonds In order to increase the level of turnover from its subsidiary to generate a positive cash flow from operations, additional investment in the mines is required The directors are in discussions with the bondholders, GazpromBank, and other parties that are intended to enable the default position to be rectified and for additional working capital to be provided

The Company's subsidiary, Brownypool Trading Limited, is in an advanced stage of selling its shareholding in JSC "Vasilevsky Rudnik Gold Mine" – "VRG" as part of a proposed transaction outlined below, which will result in the assignment of the Company's obligation in respect of the convertible bonds and the corresponding amounts due from its subsidiaries

GazpromBank, a Russian owned bank, and one of its wholly owned subsidiaries will convert 100% of the convertible bonds issued by the Company in 2006 including accrued interest together with the Company's loan provided to VRG in 2006, its Russian subsidiary, including accrued interest into a majority shareholding in VRG The proposed transaction is currently awaiting approval by the Federal Antimonopoly Service of the Russian Federation and is expected to be completed before the end of May 2010

The Directors have concluded that the circumstances above represent a material uncertainty that casts significant doubt upon the Company's and the Company's ability to continue as going concern Nevertheless, after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that 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 Company was unable to continue as going concern and were to prepare financial statements on a break up basis, assets and liabilities would be stated at realisable value which would probably differ significantly from the values as presented in these financial statements

b) *Foreign currency translation*

Transactions denominated in currencies other than the USD ("foreign currencies") are recorded in USD at the average exchange rate for the 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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) *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

Depreciation is calculated to write off the cost less estimated residual values of these assets over their estimated useful economic lives by equal annual instalments The principal rates are

Computer equipment	33%
Fixtures fittings & equipment	20%

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

d) *Cash and cash equivalents*

Cash comprises cash in hand and cash deposited in banks with a maturity period of less than 3 months

e) *Financing costs*

Financing costs comprise interest payable on bank loans, bonds 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

f) *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 Company will not be able to collect all amounts due according to the original terms of the receivables

g) *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

h) *Pension and post-employment benefits*

The Company has no pension obligations

i) *Revenue recognition*

Turnover is the total amount receivable by the Company for services provided, excluding value added tax ("VAT") and trade discounts Turnover excludes any applicable sales taxes Revenue from services is recognised as services are rendered

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) *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

k) *Convertible bonds*

The Company'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 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 at inception was 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

l) *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

m) *Investments*

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

n) *Financial assets: Loans and receivables*

Financial assets held by the Company 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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) *Derecognition of financial assets*

The Company 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

p) *Financial liabilities and equity instruments issued by the Company*

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

(Amounts in US Dollars)

4. SIGNIFICANT JUDGMENTS AND ESTIMATES

The Company 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

Carrying Values of Loans to Subsidiaries

The Company monitors internal and external indicators of impairment relating to loans to subsidiaries Where there is an indication that the carrying of loans may have been impaired through events or changes in circumstances a review will be undertaken of the recoverable amount of that loans which will involve estimates and assumptions to be made by management Actual results may vary from the estimates, and the Company'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

5. PROPERTY, PLANT AND EQUIPMENT

	Office equipment 2008	Office equipment 2007
Cost		
As at 1 January	10,925	10,925
Additions	-	-
Disposals	-	-
As at 31 December	10,925	10,925
Accumulated depreciation		
As at 1 January	4,789	1,384
Depreciation charge	3,405	3,405
As at 31 December	8,194	4,789
Net book value at 31 December	**2,731**	**6,136**

(Amounts in US Dollars)

6. INVESTMENT IN SUBSIDIARY UNDERTAKING

	2008	2007
Cost		
Brownypool Trading Limited	2,106	2,106
OOO "Angara Management"	1,939	1,939
	4,045	4,045
Impairment in the year	(4,045)	-
At 31 December	-	4,045

7. TRADE AND OTHER RECEIVABLES

	2008	2007
Amounts owed by subsidiary undertakings	53,928,840	47,721,054
Other debtors	20,826	47,809
Prepaid expenses	8,318	11,385
	53,957,984	47,780,248

Amounts owed by subsidiary undertaking include balance of a loan together with accrued interest to JSC "Vasilevsky Rudnik Gold Mine" under an intercompany loan agreement dated 10 April 2007 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 The Company has reached an agreement with bondholders to exchange liability on bonds to loan owed by JSC "Vasilevsky Rudnik Gold Mine" as reported in notes 9 and 19

The recoverability of the amounts owed by subsidiary undertakings is dependent on the successful negotiations with the bondholders which is disclosed in note 3(a)

8. SHARE CAPITAL

	31 December 2008 and 2007		
Ordinary shares of £1 each	Number of Shares	£	USD
Authorised	50,000	£ 50,000	80,000
Issued, allotted and fully paid	50,000	£ 50,000	80,000

(Amounts in US Dollars)

9. CONVERTIBLE BONDS

	2008	2007
Convertible bonds	**70,140,000**	**70,140,000**

The convertible bonds were issued in April 2007 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 Interest rate was increased up to 12% charged on nominal value of USD 50,100,000 starting from April 2008 This deadline was also not met and the Company has not redeemed the convertible bonds, and it is therefore in default The Company continued to charge interest at 12% after default

An amount of USD 1,753,500 is held in an Escrow deposit to be released only when the convertible bonds are redeemed The deposit was released subsequent to the balance sheet

The Board as at 31 December 2007 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, including penalties and interest, was recognized in the 2007 financial statements

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

Details of the proposed restructuring are set out in note 3(a) and 19

10. OTHER PAYABLES

	2008	2007
Interest on convertible bonds	4,360,073	778,265
Other creditors	536,950	525,128
	4,897,023	**1,303,393**

11. GENERAL AND ADMINISTRATIVE EXPENSES

General and administration expenses consist of the following

	2008	2007
Legal and professional fees	831,837	685,098
Bond issue and listing costs	461,603	643,000
Wages and salaries	207,090	76,373
Rent	121,752	124,355
Foreign exchange (gain)/loss	(65,057)	16,197
Other expenses	80,457	84,394
	1,637,680	**1,629,417**

(Amounts in US Dollars)

12. INTEREST RECEIVABLE

	2008	2007
Interest on loan issued to Vasilevsky Rudnik Gold Mine	6,356,469	5,995,386
Interest on loan issued to OOO Angara Management	2,112	-
Other interest	3,499	48,224
	6,362,080	6,043,610

13 INTEREST PAYABLE

	2008	2007
Interest on convertible bonds	5,335,307	8,652,048

14. TAXATION

	2008	2007
Current tax charge – under provision in prior years	8,066	-
	8,066	-

A tax reconciliation has not been included due to the taxable losses arising during the year ended 31 December 2008 and 2007 No deferred tax asset has been recognised in respect of the carried forward tax losses of approximately USD 18,970,013 arising in the Company as the recoverability of these assets in future periods is uncertain

15. RELATED PARTY BALANCES AND TRANSACTIONS

Company	2008	2007
JSC "Vasilevsky Rudnik Gold Mine"		
Loan receivable as at 31 December	45,879,120	45,879,120
Interest accrued as at 31 December	7,465,767	1,454,305
Interest charged during the year	6,356,469	5,995,387
Trade receivables as at 31 December	500,000	360,000
Revenue during the year	360,000	360,000
Brownypool Trading Limited		
Receivable at 31 December	43,924	27,629
Paid on behalf of the Brownypool during the year	16,195	27,629
OOO Angara Management		
Loan receivable as at 31 December	38,000	-
Interest receivable as at 31 December	2,118	-
Management		
Remuneration of key members of management	189,490	117,527

All companies noted above are subsidiaries of the Company Certain members of the Board, including the ultimate controlling shareholders, have provided services to the Company during the year ended 31 December 2008 and 2007 for no consideration

16. CURRENCY ANALYSIS

	31 December 2008		
	GBP	Denominated in USD	Total
Cash and cash equivalents	20,645	1,815,371	1,836,016
Trade and other receivables	29,142	53,928,840	53,957,982
Convertible bonds	-	(70,140,000)	(70,140,000)
Trade payables	(729,478)	-	(729,478)
Other payables	(536,950)	(4,360,073)	(4,897,023)
Total	**(1,216,641)**	**(18,755,862)**	**(19,972,503)**

	31 December 2007		
	GBP	Denominated in USD	Total
Cash and cash equivalents	51,431	4,021,692	4,073,123
Trade and other receivables	59,194	47,721,054	47,780,248
Convertible bonds	-	(70,140,000)	(70,140,000)
Trade payables	(83,375)	-	(83,375)
Other payables	(525,128)	(778,265)	(1,303,393)
Total	**(497,878)**	**(19,175,519)**	**(19,673,397)**

17. FAIR VALUE OF ASSETS AND LIABILITIES

The directors have assessed the fair value of the financial assets and liabilities at the balance sheet date In their opinion, all financial assets and liabilities stated in the balance sheet are recorded at their fair values, except for the convertible bonds At 31 December 2008, the fair value of the convertible bond amounted to USD 14 million, which is significantly less than the carrying amount of USD 70 1 million

This represents a 80% discount compared to the carrying amount of the convertible bond, based on management's best estimate of the market conditions at the time, the aborted listing in 2008 and the underlying uncertainty relating to the parent company's only gold producing subsidiary Without additional investment, it is expect that the subsidiary will not become profitable in the short term

18. AVERAGE NUMBER OF EMPLOYEES INCLUDING DIRECTORS

	2008	2007
Average number of employees	9	4

19 EVENTS AFTER THE BALANCE SHEET DATE

Details of the Company's going concern consideration are set out in note 3(a) and of the bond default are set out in note 9

The proposed transaction set out in note 3(a) is currently awaiting approval by the Federal Antimonopoly Service of the Russian Federation and is expected to be completed before the end of May 2010

(Amounts in US Dollars)

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company'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 plans

The capital structure of the Company at 31 December 2008 consists of cash and cash equivalents, borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings

	2008	2007
Share capital	80,000	80,000
Other reserve	1,574,925	1,574,925
Accumulated losses	(21,624,697)	(21,318,141)
Borrowings		
- convertible bonds	70,140,000	70,140,000
Total capital	50,170,228	50,476,782

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

	2008	2007
	Measured at amortised cost *Loans and receivables, including cash*	**Measured at amortised cost** *Loans and receivables, including cash*
Class/categories		
Financial assets		
Cash and cash equivalents	1,836,016	4,073,123
Trade and other receivables	53,928,840	47,721,054
Total financial assets	**55,764,856**	**51,794,177**
Financial liabilities		
Trade and other payables	(5,626,501)	(1,386,768)
Borrowings		
- convertible bonds	(70,140,000)	(70,140,000)
Total financial liabilities	**(75,766,501)**	**(71,526,768)**

All financial assets are not past due and do not have any collateral However, it is expected amounts will be settled in line with the proposed transaction reported in note 3(a) and 19

Financial Risk Management

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

Interest rate risk

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

(Amounts in US Dollars)

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Exchange rate risk

The Company undertakes certain transactions denominated in foreign currencies, namely 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 Company does not undertake any foreign currency transaction hedging but it may do so in future for material transactions

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are shown in note 16 The following table illustrates the Company's sensitivity to the fluctuation of the major currencies in which it transacts A 5% movement has been applied to each currency in the table below, representing management's assessment of a reasonably possible change in foreign currency rates

	2008	2007
Income statement	60,832	81,471

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

Credit risk

The Company's principal financial assets are loans to subsidiaries and 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 Company is exposed to a credit risk, which results from the non-performance of contractual agreements on the part of the counter party It is expected that the loan to JSC "Vasilevsky Rudnik Gold Mine" will be exchanged for an obligation relating to the assignment of the convertible bonds as part of the proposed transaction set out in notes 3(a) 9 and 19 The credit risk on liquid funds held in current accounts, totalling USD1,836,016 at 31 December 2008 (2007 USD4,073,123), 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 by exchange of bonds to loan to subsidiary

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

The table below analyses the Company's financial liabilities which will be settled on a gross basis on the relevant maturity dates 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

	Convertible bonds	Trade and other payables	**Total**
31 December 2008			
Less than 1 year	70,140,000	5,626,501	75,766,501
Total	70,140,000	5,626,501	75,766,501
31 December 2007			
Less than 1 year	70,140,000	1,386,768	71,526,768
Total	70,140,000	1,386,768	71,526,768

(Amounts in US Dollars)

21. DIRECTORS' AND KEY MANAGEMENT REMUNERATION

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

	2008	2007
Emoluments	189,490	117,527

For 2008, a total of USD 59,266 (2007 USD 94,225) was attributable to the highest paid director in respect of the aggregate amounts disclosed in the above table

22. LOSS FROM OPERATIONS

Loss from operations is stated after charging

	2008	2007
Auditors' remuneration		
Statutory audit	26,000	124,473
Taxation services	29,973	
Transaction based corporate finance services	273,694	-
	329,667	124,473

Employee costs	2008	2007
Wages and salaries	232,240	110,569
Social security costs	18,386	5,484
	250,626	116,053

The employee costs include Directors and Key Management remuneration included in note 21 The average monthly number of employees (including directors) during the year employed in an administrative capacity are disclosed in note 18

23. STANDARDS IN ISSUE NOT YET IN FORCE

In the current period, the Company 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 1st January 2008 The adoption of the Standards and Interpretations issued by the IASB has not led to any changes in the Company's accounting policies

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

IFRS 8	Operating Segments
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
Revised IFRS 2	Amendment relating to "Vesting Conditions and Cancellations"
IAS 32 & IAS 1	Amendments relating to disclosure of "Puttable Instruments and Obligations Arising on Liquidation"
Revised IAS 23	Borrowing Costs, Comprehensive revision to Prohibit Immediate Expensing
Revised IAS 1	Presentation of Financial Statements, Comprehensive revision including requiring a "Statement of Comprehensive Income"
Revised IAS 39	Financial Instruments, Amendments for Eligible Hedge Items

(Amounts in US Dollars)

24. STANDARDS IN ISSUE NOT YET IN FORCE (CONTINUED)

Revised IFRS 3	Business Combinations, Comprehensive revision on applying the Acquisition Method
IAS 27, IAS 28 & IAS31	Consequential Amendments Arising from Amendments to IFRS 3
Revised IFRS 1 & IAS 27	Amendments relating to "Cost of an Investment on First-time Adoption"

The 2007 IASB improvements project was finalised in May 2008 The 2007 changes impact over twenty standards Improvement projects will now be an annual occurrence These changes are effective for accounting periods beginning on or after 1st January 2009 The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no impact on the results and financial position presented in these financial statements other than substantial changes to the disclosures required in the financial statements, as well as, changes in the presentation of performance introduced by the revised IAS 1 which is effective for accounting periods beginning on 1st January 2009

The revised IAS 1 will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income) Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period The Company will apply IAS 1 (Revised) from 1st January 2009 The directors anticipate presenting a statement of financial position together with presenting comprehensive income in two statements