CHAARAT GOLD HOLDINGS LIMITED

Annual Report & Accounts 2011

Table of Contents

Highlights

DEVELOPMENT	Pre-Feasibility Study for Chaarat Project demonstrates robust economics and that the Project can support **production of 200,000 ounces of gold per annum**
	£50 million fund raising in March 2011 means that Chaarat is fully funded to complete construction at Tulkubash
	Permitting and construction progress at **Tulkubash on budget**
EXPLORATION	**JORC resource up 27%** to over 5.5m ounces at 4.08g/t

CHAARAT PROJECT OBJECTIVES

2011	2012	2013	2016
✓ 5 Moz Resource	Mining + Initial stockpiling of ore	Commence production	8 Moz Resource
✓ ~2.5 Moz Reserve (included in resource)			4 Moz Reserve (included in resource)
✓ Commencement of the project	Complete construction of road and power line		Production rate ~180 -200,000 oz/year
Recruitment in progress			

✓ - Completed

Chairman's Report

Early in 2011 the Board of your company took a strategic decision to change the focus of Chaarat from exploration to production.

I am pleased to report on the solid progress which has been achieved since then: the mineralisation of the Tulkubash Zone was confirmed as extending over a strike length of several kilometres and comprising mostly non-refractory ore; together with additional drilling within the existing envelope on the Contact and Main Zones, Chaarat now has in excess of 5½ million ounces of gold in resource at an average grade of 4.08 g/t. The extent of known mineralisation in these three zones points to a gold deposit greatly in excess of our declared resource.

Progress was made towards the production of gold from the mostly oxide ore from the Tulkubash Zone with the advancement of the permitting and construction programmes, in addition to developing the infrastructure components of the project and completion of the design and engineering works. The raising of £50 million of new equity in March 2011 by way of a private placing to a spread of London institutions means that the Company is fully funded until first production.

In addition to the progress towards production, we also released the results of the Pre-Feasibility Study for the whole Chaarat Project. The results demonstrate to investors and possible future partners the broader potential of the project and establish a framework within which the results can be improved upon. The study showed that the Project can support production of 200,000 ounces of gold per annum based on the existing resource. With more drilling and better understanding of the process and mining costs, we believe that there is considerable scope for improvement on the production rate and cost.

Following the drilling in the 2011 season we were pleased to announce an increase in the resource of 27%. Chaarat is becoming a very significant deposit. During 2012 management's focus will be on laying the groundwork for first production rather than on further increasing the resource base.

The political system in the Kyrgyz Republic continues to stabilise and 2011 saw parliamentary elections which resulted in a coalition government. The presidential

Chaarat is becoming a very significant deposit. During 2012 management's focus will be on laying the groundwork for first production rather than on further increasing the resource base.

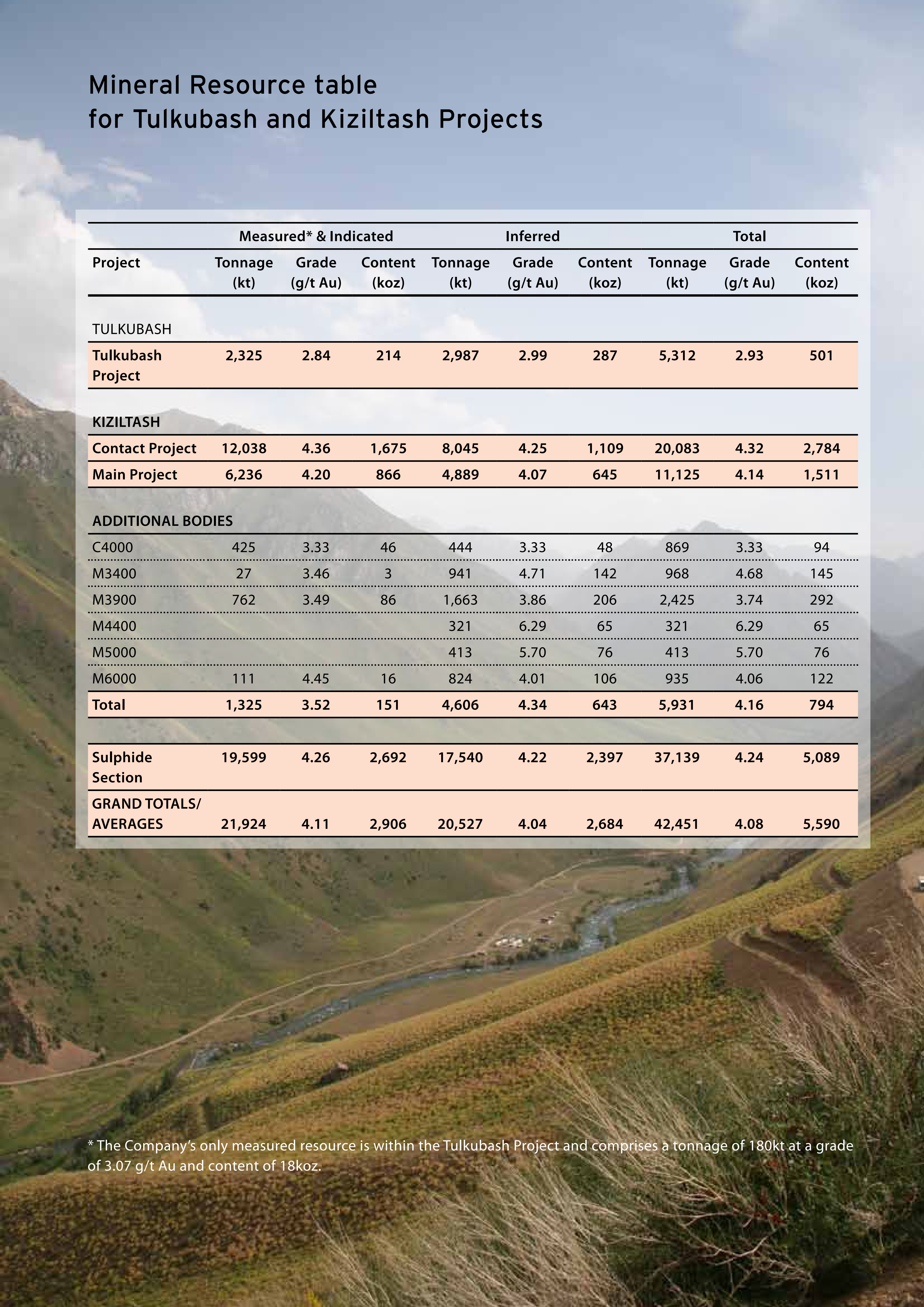
election two months later promoted the incumbent Prime Minister to President, which resulted in a reshuffle of the coalition. This process caused delay in the review of our permit application.

At the time of writing we have called a temporary halt to expenditure on building the process plant while we discuss with the government of the Kyrgyz Republic a long term arrangement on royalty and taxation.

The backdrop to this is the likelihood that the new Kyrgyz coalition government will follow the trend of governments elsewhere in seeking larger contributions from extractive industries. The Chaarat Project will not only be amongst the first to move into production in the country, but is also of sufficient scale to merit, on the part of both government and Chaarat shareholders, a long term agreement that is mutually beneficial to both parties. There are presently indications that this can be achieved. The benefits to be derived from a certainty of the long term conditions under which the Project operates will considerably outweigh the delay to first production and interruption to current progress on site.

Chaarat staff have worked with determination over the year. I thank them all for their efforts which I am sure will continue unabated as we move ever closer to production.

Christopher Palmer- Tomkinson
Chairman



Mineral Resource table for Tulkubash and Kiziltash Projects

	Measured* & Indicated			Inferred			Total		
Project	Tonnage (kt)	Grade (g/t Au)	Content (koz)	Tonnage (kt)	Grade (g/t Au)	Content (koz)	Tonnage (kt)	Grade (g/t Au)	Content (koz)
TULKUBASH									
Tulkubash Project	**2,325**	**2.84**	**214**	**2,987**	**2.99**	**287**	**5,312**	**2.93**	**501**
KIZILTASH									
Contact Project	**12,038**	**4.36**	**1,675**	**8,045**	**4.25**	**1,109**	**20,083**	**4.32**	**2,784**
Main Project	**6,236**	**4.20**	**866**	**4,889**	**4.07**	**645**	**11,125**	**4.14**	**1,511**
ADDITIONAL BODIES									
C4000	425	3.33	46	444	3.33	48	869	3.33	94
M3400	27	3.46	3	941	4.71	142	968	4.68	145
M3900	762	3.49	86	1,663	3.86	206	2,425	3.74	292
M4400				321	6.29	65	321	6.29	65
M5000				413	5.70	76	413	5.70	76
M6000	111	4.45	16	824	4.01	106	935	4.06	122
Total	**1,325**	**3.52**	**151**	**4,606**	**4.34**	**643**	**5,931**	**4.16**	**794**
Sulphide Section	**19,599**	**4.26**	**2,692**	**17,540**	**4.22**	**2,397**	**37,139**	**4.24**	**5,089**
GRAND TOTALS/ AVERAGES	**21,924**	**4.11**	**2,906**	**20,527**	**4.04**	**2,684**	**42,451**	**4.08**	**5,590**

* The Company's only measured resource is within the Tulkubash Project and comprises a tonnage of 180kt at a grade of 3.07 g/t Au and content of 18koz.

Chief Executive Officer's Report

In 2011 Chaarat continued to focus on activities to achieve our strategic target established in 2010 to move to production.

During the year the Company continued to make progress towards its main operational objectives of facilitating early production during 2013, increasing and improving the resource base at Chaarat and developing Chontash into another major deposit.

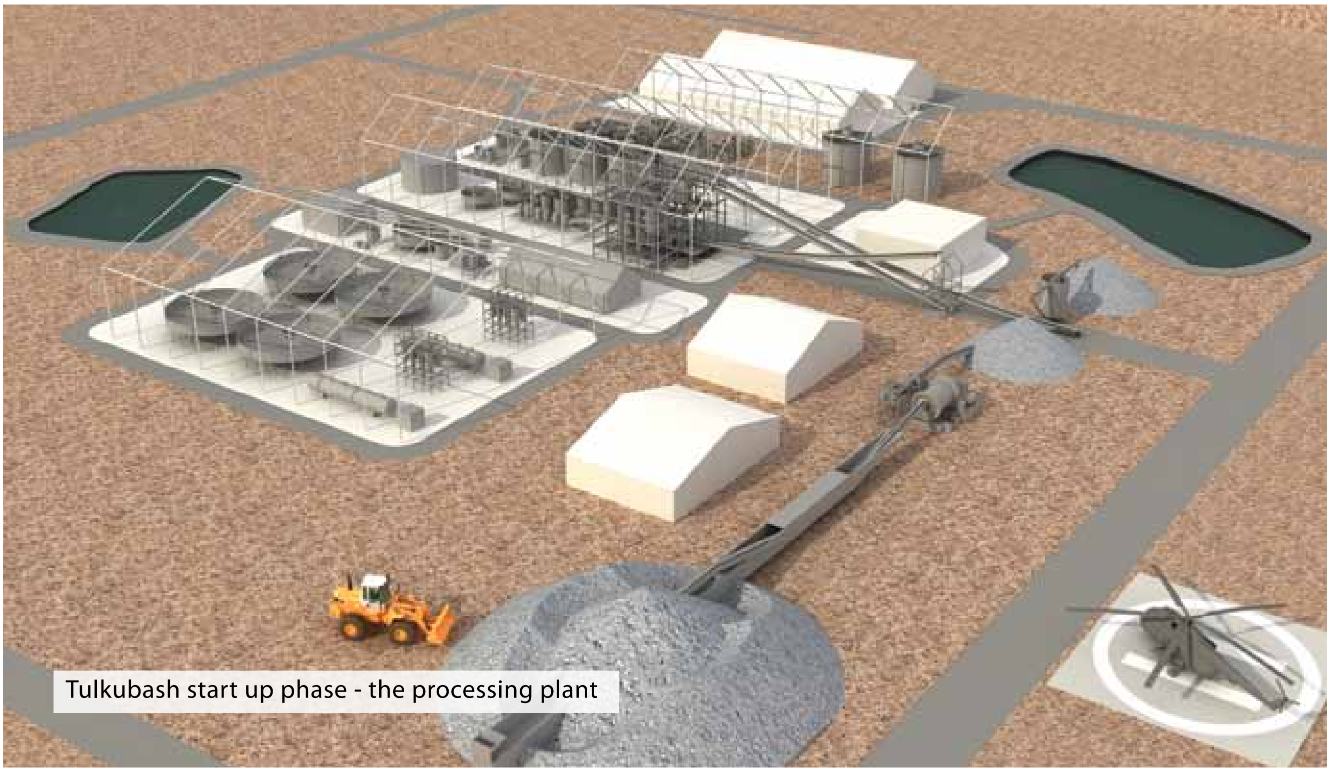
The following report records our progress to date.

PROJECT UPDATE

The Chaarat Project will be developed in two principal stages; the Tulkubash Project, which involves the processing of oxide material, and the Kiziltash refractory stage. At first, production will be on a small scale at 1,200 tonnes per day (tpd) which equates to 30,000-35,000 ounces of gold per annum, increasing to 5,000 tpd (equivalent to 180,000 – 200,000 ounces of gold per annum) as the whole project is brought on stream.
In 2011 we completed a Pre-Feasibility Study across the entire Project which will be updated this year to reflect our improved knowledge of Chaarat. In accordance with local requirements we also completed a Feasibility Study for the Tulkubash Project. This will be submitted for approval to meet one of the conditions for the granting of a mining permit.

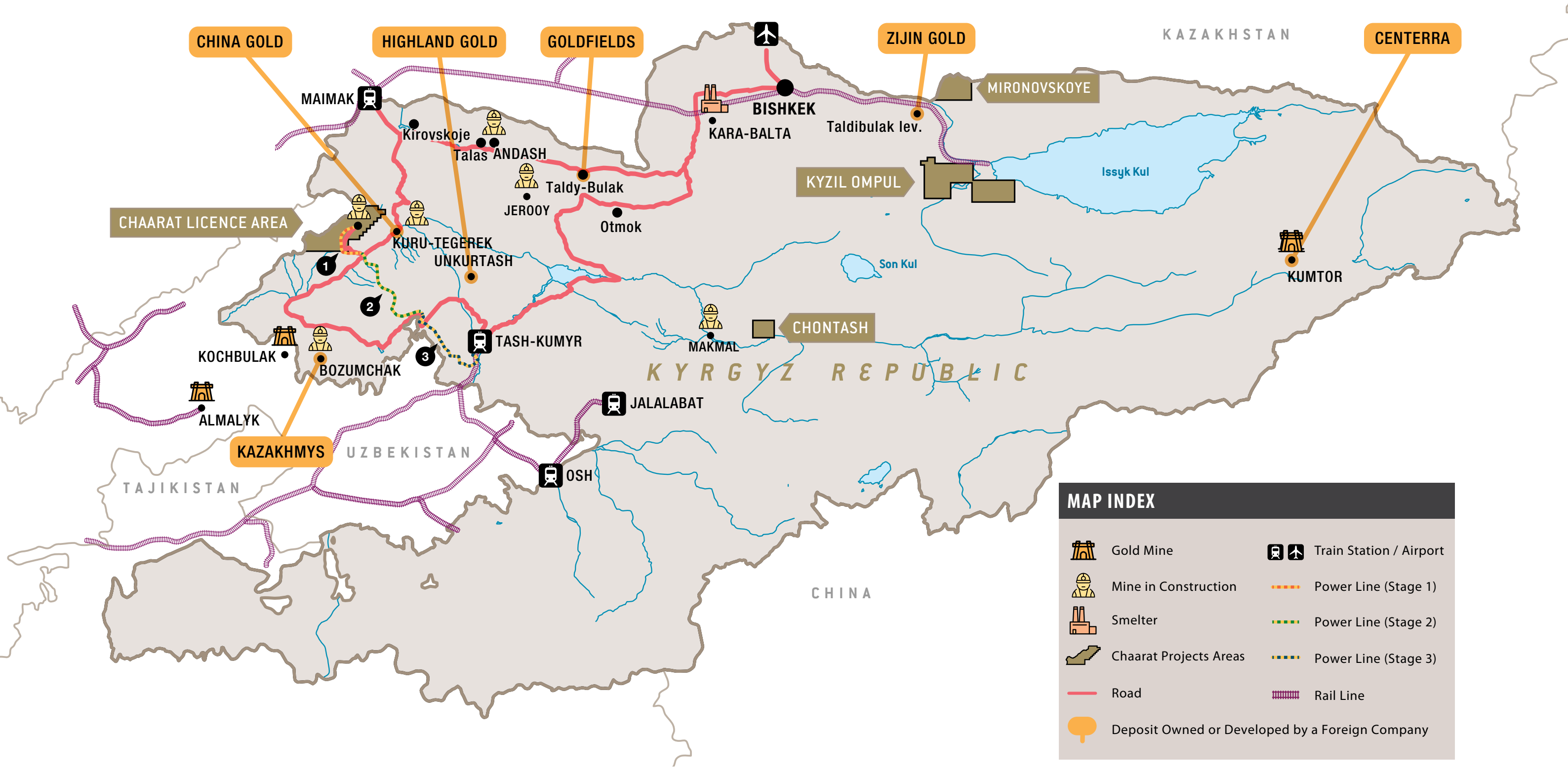
A major refinement to our strategy, with a consequent effect on the design process, was the decision to build the plant to process the ore from early stage production at the same location as the plant required for full production, rather than as a standalone in a different location. We had originally planned to build a small modular 700-1,000 tpd plant in a separate location to precede construction of a new facility for the larger plant. This modification of the strategy reflected our desire to generate early cash flow and also to reduce the impact of the fixed costs associated with a production rate of 5,000 tpd or more envisaged for the second phase.

The Pre-Feasibility Study was prepared on the basis of the plant being required to process 5,000 tpd of sulphide ore.



Tulkubash start up phase - the processing plant

The Majors are Coming



From this full production design, development has been planned to allow for construction to be implemented in phases which can be added without disrupting ongoing operations. With this design, production and construction will commence at a production rate of 1,200 tpd of free milling ore and be increased, when funds permit and without interruption, to process 5,000 tpd of refractory ore. This "reverse engineering" will ensure a smooth transition between the phases with the minimum of redundant plant and the maximum utilisation of the limited space available.

The start-up phase for 1,200 tpd of free milling ore is a conventional flow sheet used in many gold operations. It consists of primary and secondary crushing, milling, carbon in leach (CIL), elution, electro-winning and smelting to produce gold doré.

This change will lower costs and facilitate a smoother increase in production. Studies have shown that doubling production from 1,200 tpd to 2,500 tpd will cost approximately USD15-20 million (including the necessary additions to the mining fleet).

Detailed engineering works have commenced and most elements of the Project have been designed. This has enabled us to issue tenders to suppliers for the power supply, road access, processing plant, tailings facility, mining fleet, explosive supply systems and other elements of the operation.

Permits have been granted for the construction of the power line, roads, and the temporary camp site which will be used until the permanent camp is built.

EXTERNAL POWER SUPPLY

Power supply is critical for any mining project and fortunately the Kyrgyz Republic is well endowed with power generation capacity. Chaarat has already secured an allocation of 25 megawatts (MW) from the Kristal substation. We also managed to agree with the national power company that an allocation of at least 10 MW will be made available from the Karavan substation which is much closer to Chaarat. We are currently considering whether we should build a generating station in the Chatkal valley, as originally planned, or build a line direct to Karavan. We are evaluating the cost implications and establishing whether one of the neighbouring companies may be interested in sharing this cost. Connecting to the very low cost Kyrgyz grid supply will add significant value to the Chaarat Project by considerably reducing the operating costs of production.

PERMITTING

The new Kyrgyz government, formed early in 2012 after the previous Prime Minister was elected President, is contemplating, like many other governments, the right approach towards the taxation of extractive companies. Rather than set clear rules the government has decreed that the fiscal terms of a project will be determined by direct negotiations between the applicant and the government. Chaarat has decided it is better to determine the terms prior to pressing ahead and committing the finance required to bring the project into production.

Chaarat has commenced discussions with the government and we believe that the outcome of these discussions will be both timely and positive. We will keep shareholders updated on progress.
We originally expected to commence mining during 2012 and produce gold in April 2013. This was always subject to having secured permits on time. We still believe we will be producing gold during 2013 with a slight delay caused by the requirement to negotiate an investment agreement with the government.

FUNDING

As work has progressed, uncertainty over budget has decreased. Cost inflation in the mining industry is a hot topic and many of our investors have been concerned that we have underestimated costs. We believe that using standard equipment has helped us avoid the significant cost inflation which has occurred in more dedicated highly specialised equipment, which is produced by a few large suppliers.

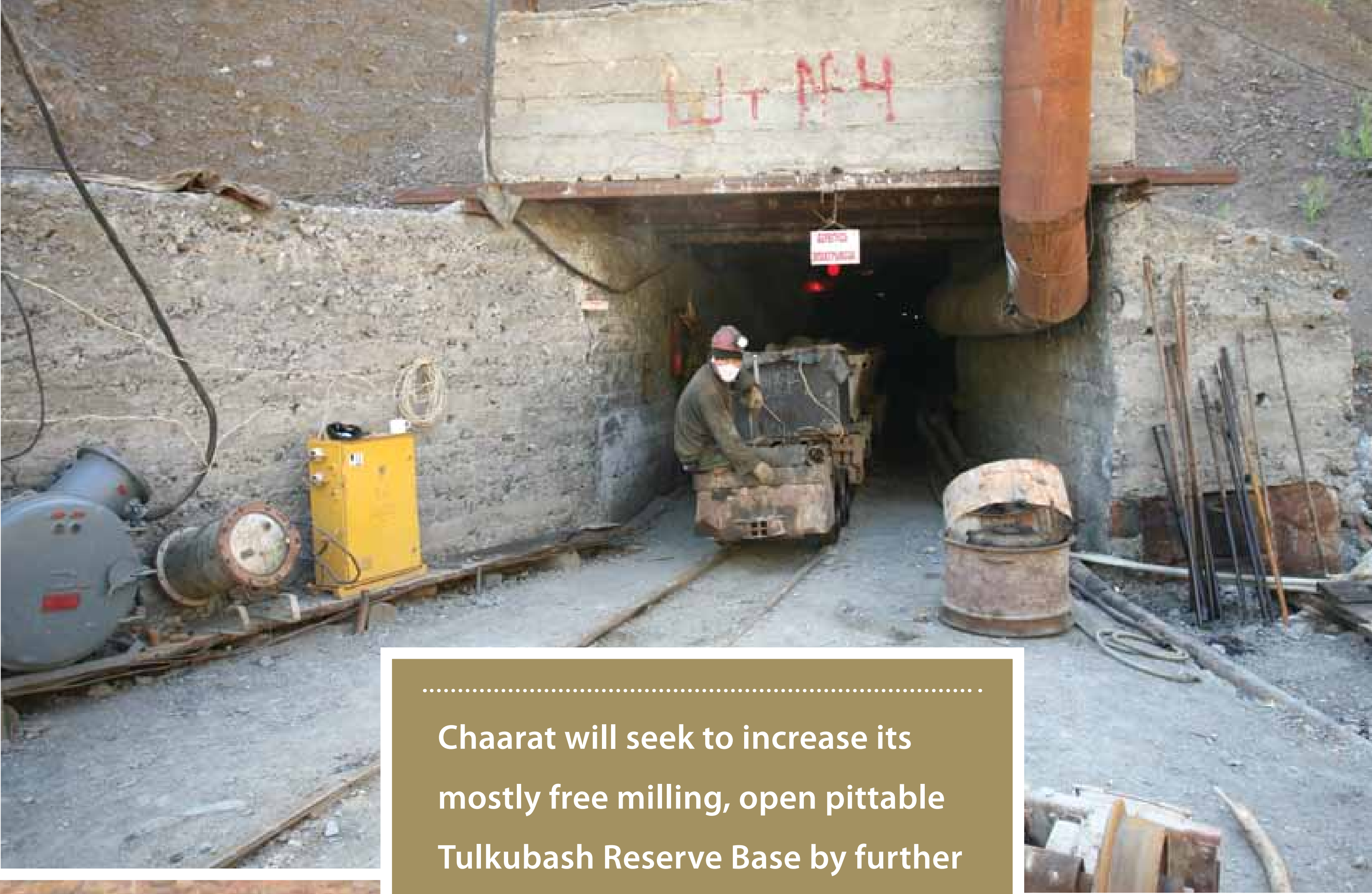
We are confident that the funds raised in March 2011 will be adequate to complete the construction of all elements to commence production at the lower rate. We have already commenced negotiations for a working capital facility of c$20million, which we currently intend to raise from non equity sources.

Chaarat will seek to increase its mostly free milling, open pittable Tulkubash Reserve Base by further drilling and, if the results of the drilling are as expected, develop a Definitive Feasibility Study underpinning a significantly higher production rate for this phase of the project.

Additional investment will be required to achieve both an increased production rate and access to a lower cost source of power, both of which are expected to further improve the project's NPV. The Board will consider the options available when the results of the Definitive Feasibility Study are known. A number of alternative financing options are available, should the Board decide to pursue the upgraded project.

We continue to strengthen and build our core management and I am privileged to work with an exceptional team of people who continue to drive Chaarat ever onwards towards production; for which I thank them.

Dekel Golan
Chief Executive Officer



Chaarat will seek to increase its mostly free milling, open pittable Tulkubash Reserve Base by further drilling and, if the results of the drilling are as expected, develop a Definitive Feasibility Study underpinning a significantly higher production rate for this phase of the project.

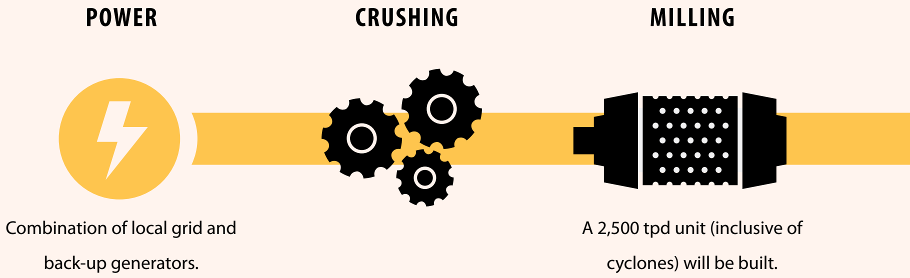
Chaarat Deposit Development Schedule

STAGE 1

Mining from the open pit section of the low sulphur Tulkubash Zone.

Gold is produced as doré with a proportion as concentrate.

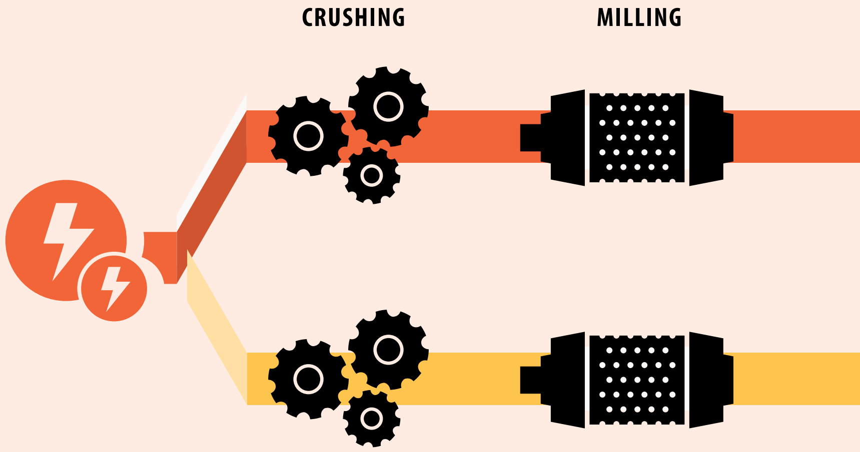
This line will commence operation at 1,200 tonnes per day (tpd) and will be augmented to treat 2,500 tpd as soon as practical.



STAGE 2

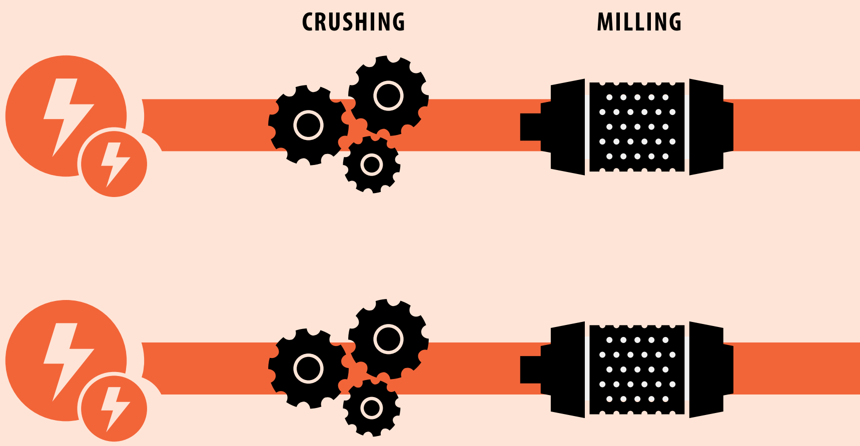
An additional line of 2,500 tpd will be constructed to handle ore from the Kiziltash Projects. This ore will be concentrated and fed to the autoclave together with the Tulkubash concentrate.

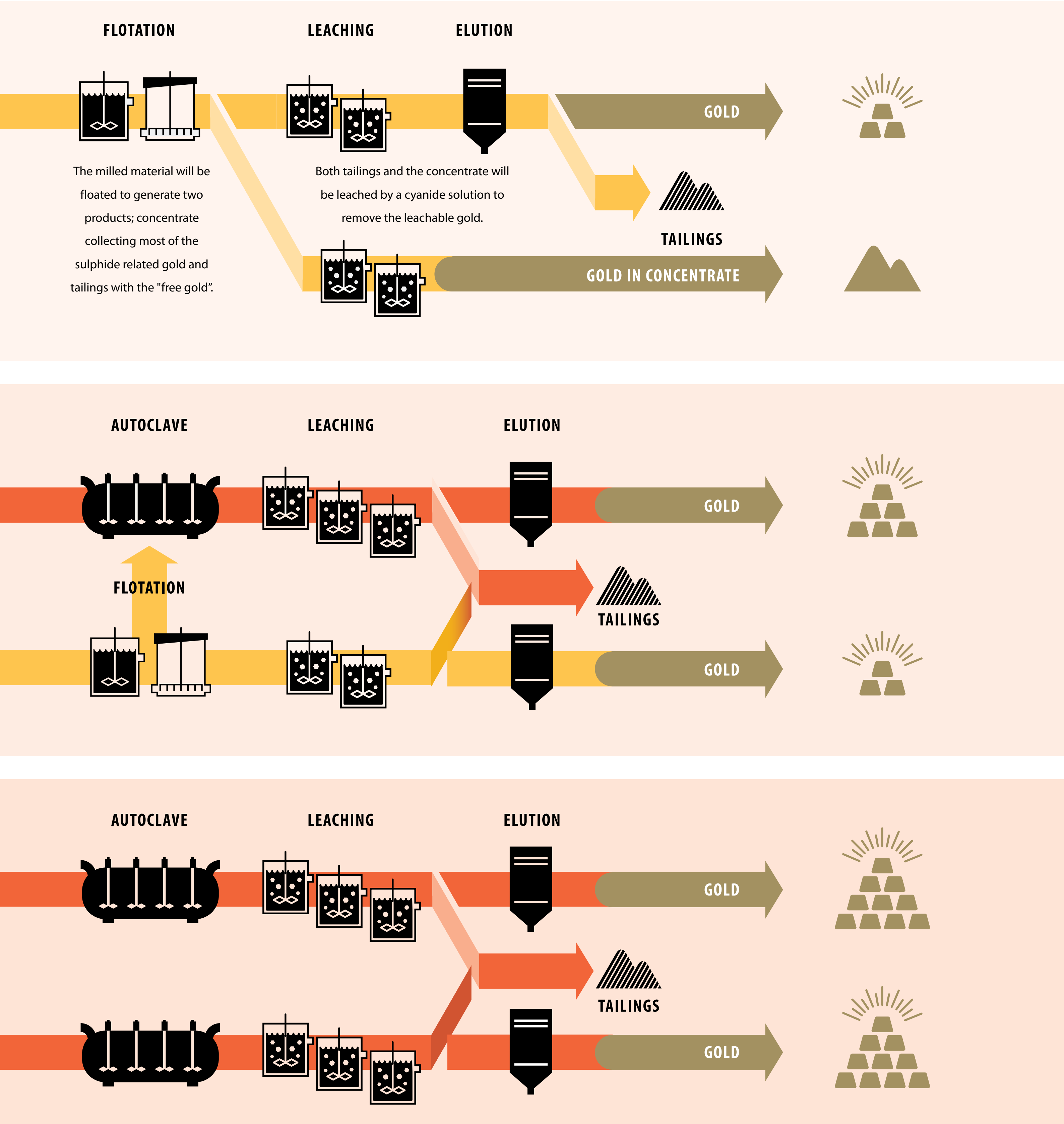
At this stage 5,000 tpd will be treated from both projects.



STAGE 3

As the ore becomes more refractory and the concentrate volume increases an additional autoclave will be installed to increase oxidation capacity.




FLOTATION
LEACHING
ELUTION
GOLD
TAILINGS
GOLD IN CONCENTRATE
The milled material will be floated to generate two products; concentrate collecting most of the sulphide related gold and tailings with the "free gold".
Both tailings and the concentrate will be leached by a cyanide solution to remove the leachable gold.
AUTOCLAVE
LEACHING
ELUTION
GOLD
FLOTATION
TAILINGS
GOLD
AUTOCLAVE
LEACHING
ELUTION
GOLD
TAILINGS
GOLD

Exploration

Two main types of mineralisation are contained in the Chaarat deposit; the first is the oxide mineralisation, hosted in the Tulkubash Zone. The mining and processing of this will comprise the "Tulkubash Project" which is mostly free milling i.e. can be processed by direct cyanidation. The second is the sulphide (refractory) mineralisation hosted in the Main and Contact Zones which comprises the Kiziltash Project. This mineralisation requires a more complex processing treatment.

Until the 2010 season, the majority of the exploration work on the Chaarat deposit focused on the refractory mineralisation. By the end of the 2011 season we had established a JORC compliant resource of more than 5 million ounces of gold with indications that many more ounces remain to be delineated.

It was only in 2010 we realised that ore from the Tulkubash Zone was amenable to direct leaching without the need for the oxidation process required for the sulphide material in the Kiziltash Project. Most of the Tulkubash ore is readily leachable and the balance can be either stockpiled, or concentrated and sold as concentrate. With this understanding the fast-track delineation of a "free-milling Project" commenced.

METRES DRILLED PER YEAR

HOLE-ID	FROM	TO	LENGTH	TRUE WIDTH	AUFINAL
CCH0561	86.82	102.41	15.59	12.47	4.97
CCH07146	115.50	118.50	3.00	2.40	8.97
CCH0793b	38.99	68.99	30.00	24.00	4.41
CCH0793b	128.99	139.49	10.50	8.40	3.36
CCH0795	82.50	87.00	4.50	3.60	5.40
CCH0796	110.01	123.51	13.50	10.80	3.02
CCH0796	128.01	131.01	3.00	2.40	5.12
CCH0797	0.00	38.00	37.99	30.39	1.96
CCH09T0793b2	33.51	73.10	39.59	31.67	4.47
CCH10T0701	63.50	71.00	7.50	6.00	15.22
CCH10T0713	51.00	58.50	7.50	6.00	5.37
CCH10T0714b	19.01	31.00	12.00	9.60	5.12
CCH10T0726	54.49	81.49	26.99	21.59	2.20
CCH10T0727	54.50	68.00	13.50	10.80	2.25
CCH10T0730	9.00	25.51	16.51	13.21	2.00
CCH10T0730	58.50	63.00	4.50	3.60	6.42
CCH10UG702	3.00	6.00	3.00	2.40	5.05
CCH10UG703	55.50	63.00	7.50	6.00	5.67
CCH10UG704	16.50	29.99	13.49	10.79	2.44
CCH10UG705	19.50	42.00	22.50	18.00	2.11
CCH10UG707	3.00	17.99	14.99	11.99	4.78
CCH10UG708	12.45	18.99	6.54	5.23	3.37
CCH11T07100	67.49	77.99	10.50	8.40	2.14
CCH11T07102	69.01	81.01	12.00	9.60	3.39
CCH11T07107b	111.00	136.49	25.49	20.39	2.47

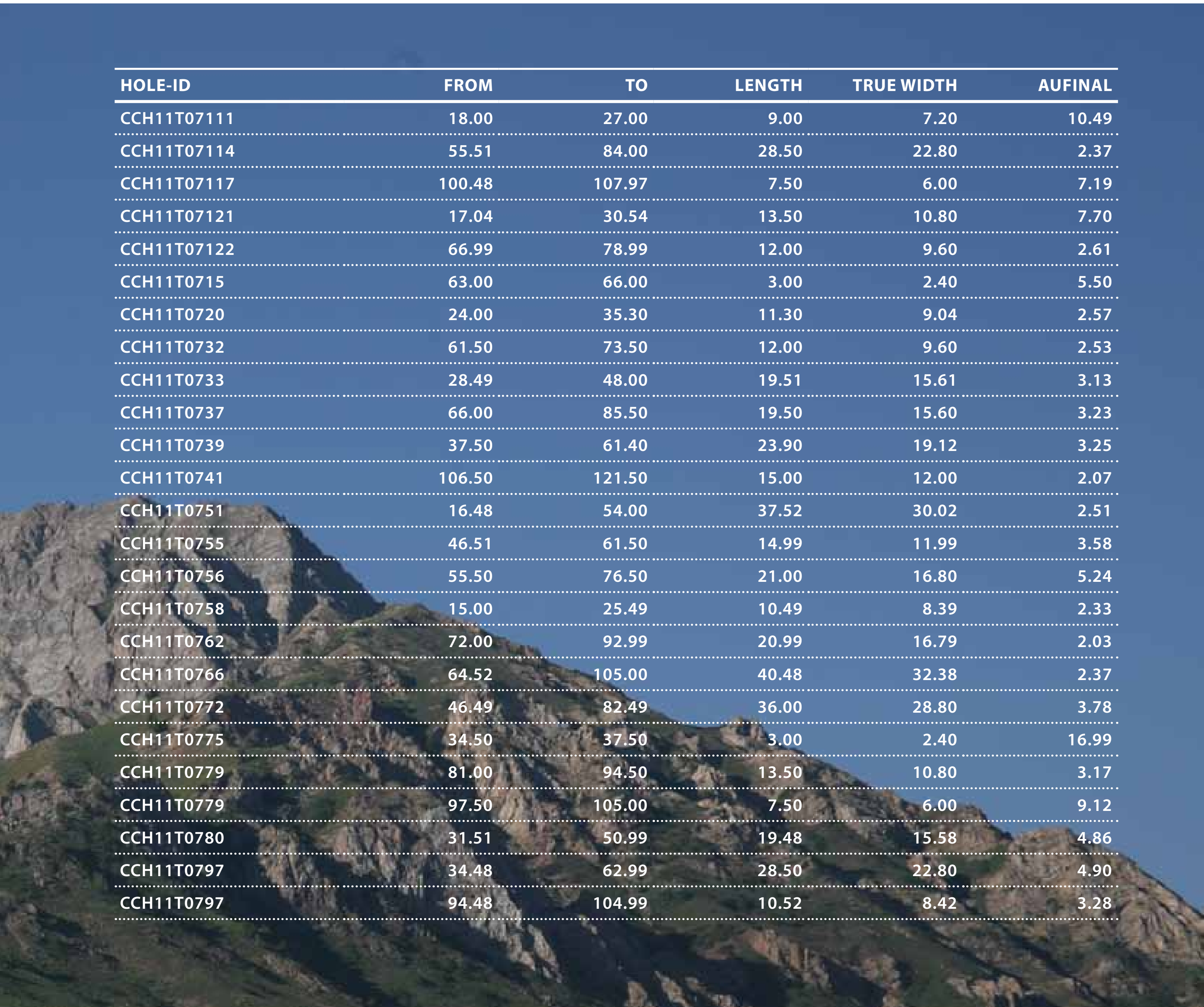
TULKUBASH PROJECT

During 2010 and 2011 a total of 20,256 metres was drilled and a resource of 501,000 ounces of gold delineated. The Tulkubash Zone, which has been partially drilled along only 920 metres of strike, extends for a total of almost 10 km. There is therefore considerable potential for increasing the delineated resource, reserves and eventually production significantly from this simple, low-cost operation.

The exploration work during the 2011 season focused on the shallow mineralisation which will be mined by open pit methods at a strip ratio which is estimated not to exceed 1:10. A total of 350,000 ounces had been delineated within this pit shell by the end of the 2011 season. Exploration work during 2012 will focus on increasing the size of the pit and its resource, and on reducing the strip ratio. The aim is to increase the rate of production and reduce costs by absorbing the fixed costs over a larger production base.

Our geological understanding of Chaarat is improving, and with it our confidence in its predictability.

High grade outcrops have been located in unexplored sections of the discontinuous 10 kilometre Tulkubash Zone. The results of soil geochemistry and trenching work completed during the 2011 season demonstrated encouragingly high soil gold grades in the northern section. We intend to investigate these areas of high soil anomaly further during the 2012 season.



HOLE-ID	FROM	TO	LENGTH	TRUE WIDTH	AUFINAL
CCH11T07111	18.00	27.00	9.00	7.20	10.49
CCH11T07114	55.51	84.00	28.50	22.80	2.37
CCH11T07117	100.48	107.97	7.50	6.00	7.19
CCH11T07121	17.04	30.54	13.50	10.80	7.70
CCH11T07122	66.99	78.99	12.00	9.60	2.61
CCH11T0715	63.00	66.00	3.00	2.40	5.50
CCH11T0720	24.00	35.30	11.30	9.04	2.57
CCH11T0732	61.50	73.50	12.00	9.60	2.53
CCH11T0733	28.49	48.00	19.51	15.61	3.13
CCH11T0737	66.00	85.50	19.50	15.60	3.23
CCH11T0739	37.50	61.40	23.90	19.12	3.25
CCH11T0741	106.50	121.50	15.00	12.00	2.07
CCH11T0751	16.48	54.00	37.52	30.02	2.51
CCH11T0755	46.51	61.50	14.99	11.99	3.58
CCH11T0756	55.50	76.50	21.00	16.80	5.24
CCH11T0758	15.00	25.49	10.49	8.39	2.33
CCH11T0762	72.00	92.99	20.99	16.79	2.03
CCH11T0766	64.52	105.00	40.48	32.38	2.37
CCH11T0772	46.49	82.49	36.00	28.80	3.78
CCH11T0775	34.50	37.50	3.00	2.40	16.99
CCH11T0779	81.00	94.50	13.50	10.80	3.17
CCH11T0779	97.50	105.00	7.50	6.00	9.12
CCH11T0780	31.51	50.99	19.48	15.58	4.86
CCH11T0797	34.48	62.99	28.50	22.80	4.90
CCH11T0797	94.48	104.99	10.52	8.42	3.28

KIZILTASH PROJECT

Only 33 holes were drilled during the 2011 season in the Kiziltash Project, 20 of which were drilled in the Contact Project and 13 in the Main Project. The results of this drilling increased the resource by 1.002m ounces representing 30.4% of the previously delineated resource.

The Contact Project is characterised by wide veins and a concentrated resource. Measured by "ounces per vertical metre" (an industry standard for the quality of an ore body) indications are that already delineated mineralisation can support a production rate of over 200,000 ounces of gold per annum. Additional drilling will both support and increase this estimated production rate.

Whilst we have no doubt that the resource of the Kiziltash Project can be increased significantly, our strategy in 2012 is to continue to progress towards production based on developing the mostly free milling segment of the deposit in the Tulkubash Zone. A focus on increasing the resource in the Kiziltash Project will resume once production is underway.

CHONTASH

Chontash holds great promise as our second large scale project. The Chontash deposit is located near to Makhmal, a decommissioned gold mine, with the consequent benefits of access to infrastructure. Chontash was originally assumed to be a molybdenum deposit, but additional drilling has demonstrated that three distinct types of mineralisation are intertwined in the deposit; molybdenum rich skarn, copper gold porphyry and carbonates with a relatively high grade of rare earth elements (REE).

During 2011 we focused on revisiting the geophysics of Chontash before undertaking drilling to supplement that carried out during the 2010 season. The geophysical report identified a large underground structure and drill targets were established accordingly. Only one hole could be drilled in the 2011 season due the early onset of winter. Additional drilling is planned for the 2012 season. We hope that Chontash is capable of being developed into a large, low strip ratio, open pit target.

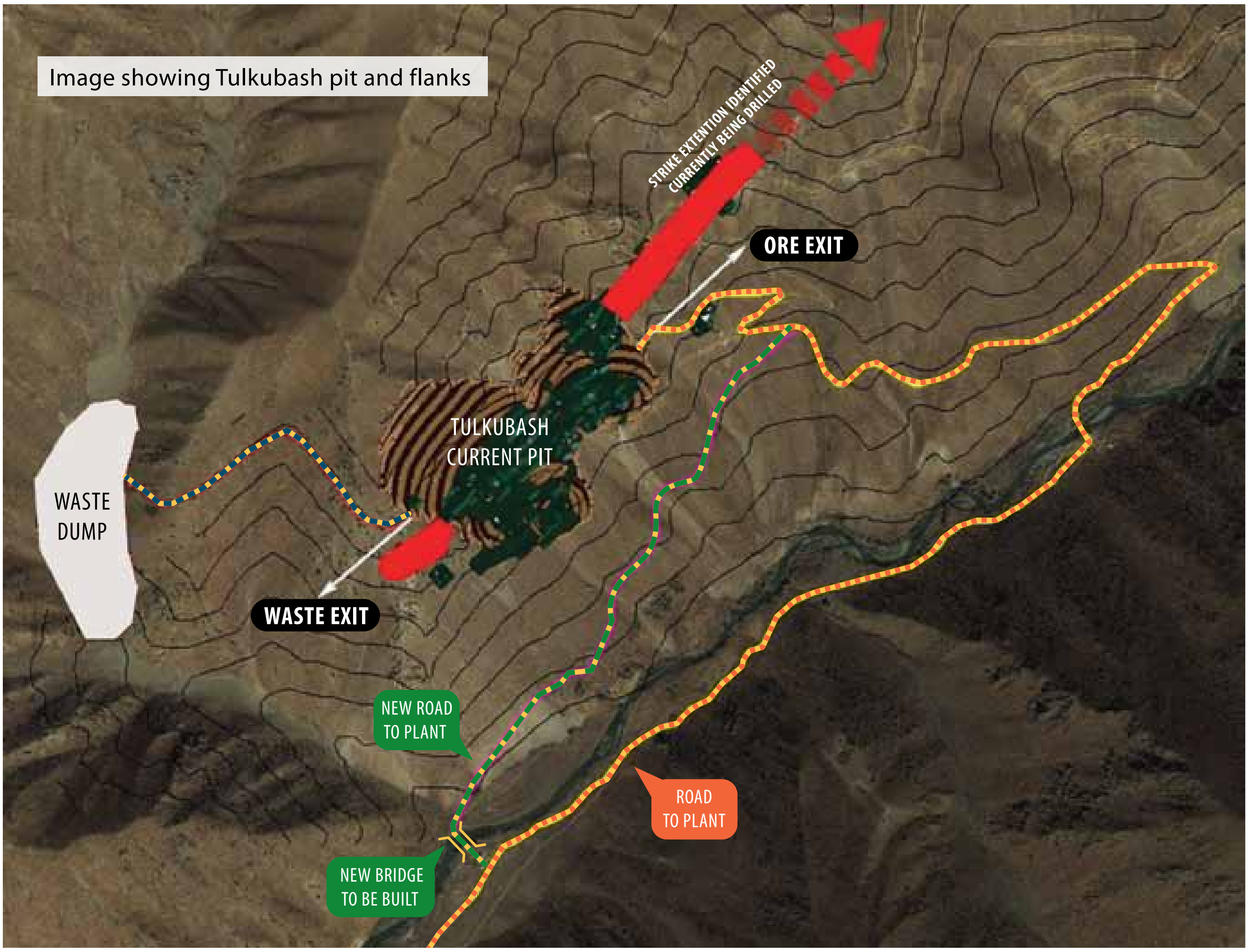


Image showing Tulkubash pit and flanks


СРЕДНЯЯ
ШКОЛА

Social Responsibility

Nestled between mountain passes, the Chatkal valley is not easily accessible. Historically this isolation protected its inhabitants who prospered from agriculture and gold production until the 13th century. The Mongol invasion despatched the valley's permanent residents. The area was gradually resettled during the Soviet era when an agricultural infrastructure was centrally planned to establish a population to farm and work in the region's mines.

Since independence the infrastructure in the Chatkal valley has been deteriorating, the roads, power lines, schools, clinics, veterinary services and other important aspects of modern life have eroded due to underinvestment by the Kyrgyz government.

Chaarat believes there is a social contract between the local population and companies in the extractive industries and that commercial development should benefit both developer and local society. Development should also be sustainable and minimise impact on both society and the environment.

Negotiating a social contract requires interaction with, and involvement from, the local population. We have created a vehicle, Chatkal Ordo, which may be loosely translated as the "Chatkal community," or "Chatkal clan".

Chatkal Ordo is registered in the Kyrgyz Republic as a public fund. The board of trustees comprises local and international members and currently is fully supported financially and logistically by Chaarat.

THE OPERATIONAL PRINCIPLES OF CHATKAL ORDO

Chatkal Ordo's long term aim is to help improve the health and wealth of the local residents. In reality this is inevitably more complicated. However, Chatkal Ordo and Chaarat are trying to balance provision of both urgent support and long term intervention.

The intervention of Chakal Ordo, besides providing emergency support, focuses in three areas:

- Employment creation
- Education
- Health management

EMPLOYMENT CREATION

In 2011 Chaarat was the largest single employer in the region and Chatkal residents were, and continue to be, given priority in interviews for work with the Company. Chatkal Ordo arranged training and workshops in shyrdak (felt carpet) making for the local women. Assistance will be provided in marketing the product which should provide a source of income during the winter.

We have made it a condition of our contracts with those tendering to supply catering to our mining camps that local produce is purchased. Our aim is to raise local food production from subsistence level farming to a more commercial production level to generate income for the local communities.

EDUCATION

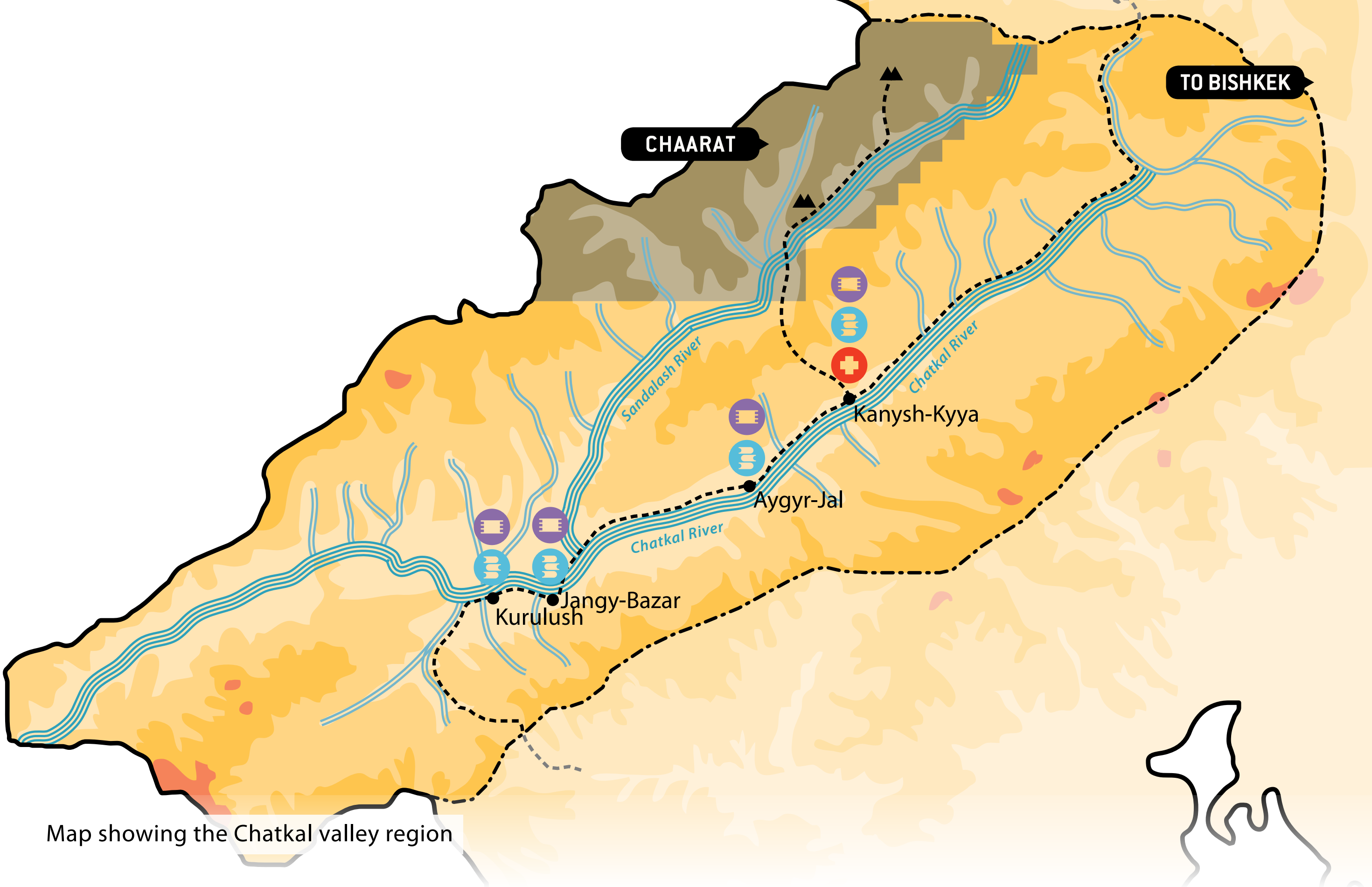
The Foundation has continued established traditions such as the "back to school" gift for all new students at the beginning of the school year. This consists of a new backpack packed with school supplies.

2011 is the fifth year that scholarships have been provided for students from the Chatkal region who have won a place at university. The scholarships cover not only tuition fees but also support the student during the study period. Students are also offered training at Chaarat during the summer (on full pay). The scholarships are reviewed each year based on the student's performance and exam results. There are currently 20 students on full university scholarships.

HEALTH

Chaarat has supported local clinics and hospitals with donations for many years. In 2011 Chatkal Ordo commissioned an in-depth survey to prioritise health issues requiring its intervention.

The Foundation commissioned a Mobile Medical Unit to visit all the main centres of population in Chatkal with two principal aims in mind; evaluation of the



Map showing the Chatkal valley region

health status of as many residents as possible in order to build a long term intervention programme, as well as providing immediate advice or treatment where possible and practical.

Seven experts were commissioned as a team including cardiologists, paediatricians, an ultra sound technician, a gastroscopy practitioner, a gynaecologist and therapists and provided with mobile equipment. During their six day tour of the region 1,380 residents were examined. For the Chatkal residents it was a rare opportunity to receive high quality medical diagnoses and assistance from professionals. For Chatkal Ordo and Chaarat the community's priority health needs are now much clearer and we will develop our plans accordingly.

GENERAL ASSISTANCE

Whilst we continue to work on the long term aims of the social contract, emergency and ad hoc assistance also needs to be provided. During the winter the relative isolation of the Chatkal region makes the supply of food difficult and consequently expensive. The locals cannot afford to buy and store food for the whole winter from their monthly income so are forced to dip into their savings. This winter was especially bad and the supply chain broke down altogether with food being sold at exorbitant prices. In response Chaarat financed the purchase and distribution of 126 tonnes of flour at cost to the local population. As a result both the cost of living in the region was dramatically reduced and the lives of many residents considerably improved. The transport costs were absorbed by Chaarat this year.

The abrupt onset of the 2011/2012 winter meant that farmers struggled to harvest enough hay to feed their livestock where much of the population is dependent on animals to provide transport and food. 2,100 hay bales were therefore delivered to Chatkal residents.

On 9th May Victory Day Chaarat was proud to honour the 23 surviving Second World War veterans who reside in Chatkal with a small gift to help them prepare for winter.

Directors' Biographies

Christopher Palmer-Tomkinson
(Non-Executive Chairman)
Christopher graduated from Oxford University and joined Cazenove in 1963. He served as a partner from 1972 until 2001 and as managing director of international corporate finance until May 2002. He was responsible at various times for Cazenove's African and Australian business focussing on the resource sector. Christopher is also a former director of Highland Gold Mining Limited. He is a member of both the Remuneration Committee and the Audit Committee.

Dekel Golan
(Chief Executive Officer)
Dekel Golan is a graduate of Tel Aviv University. Formerly president of Apex Asia LDC, a subsidiary of Apex Silver Mines Limited, he has extensive experience in developing businesses, in emerging economies as well as the developed world. Dekel was the founder and Executive Chairman of APC Limited, a coffee and tea producer in Africa. In addition, he has advised a number of international and Israeli companies on business development. Prior to this, Dekel was Vice President of Business Development of Supersol, the largest retail operator in Israel and worked at Dead Sea Bromine Group, the world's largest bromine producer.

Left to right: Dekel Golan, Linda Naylor, Christoper Palmer-Tomkinson and Dr. Robert Weinberg

Linda Naylor

(Finance Director)

Linda is a graduate of the London School of Economics and a Fellow of the Institute of Chartered Accountants in England & Wales. A former partner in Grant Thornton UK LLP, her experience gained over more than twenty years included working as a nominated adviser in the Capital Markets team from 1996 and as an audit partner specialising in the natural resource sector.

Alexander Novak

(Executive Director)

Alex is a graduate of the Kazakh Polytechnic Institute (M.Sc). He has assisted companies investing in the Kyrgyz Republic in various aspects of finance, administration and representation with the authorities since 2000. He has more than 25 years experience in all aspects of business management in Central Asia including negotiations with governmental institutions, contractors, preparation of development plans, monitoring of operations and public relations.

From 1992 to 1995, he was a founding partner and a director of Maya Elev Diamond Limited, a diamond processing plant in Russia. From 1978 though to 1990, Mr Novak held several positions at numerous construction companies in Kazakhstan, including Director of KazStroiMontajAvtomatika.

Dr Robert Weinberg MA, DPhil, FGS, FIMMM

(Non-Executive Director)

Rob gained his doctorate in geology from Oxford University and has more than 35 years of international mining industry experience. He is an independent mining research analyst and consultant. He is a Fellow of the Geological Society of London and also a Fellow of the Institute of Materials, Minerals and Mining.

Rob brings a wealth of marketing and investment banking experience to the Company having held executive positions that include being Managing Director, Institutional Investment at the World Gold Council. Previously he was a Director of the Investment Banking Division of Deutsche Bank in London, head of the global mining research team at SG Warburg Securities and head of the mining team at James Capel & Co. He was formerly Marketing Manager of the Gold and Uranium Division of Anglo American Corporation of South Africa Ltd.

He is an independent non-executive Director of Kasbah Resources Ltd, listed on the ASX, also of Medusa Mining Ltd (listed on the ASX , LSE and TSX), and of AIM listed Solomon Gold plc. He is also an independent non-executive Director of Metallon Corporation Plc, a private company. He is Chairman of both Chaarat's Audit and the Remuneration Committees.

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2011.

Principal Activities and Business Review

The principal activity of the Group is exploration for gold and the development of the Chaarat Gold Project in the Kyrgyz Republic. The principal activities of the Company are those of a holding, management and finance company.

In common with many exploration and development groups, the Group raises finance for its exploration, appraisal and development activities in discrete tranches which finance its activities for limited periods. Further fundraising is undertaken as and when required.

Reviews of operations and business developments are reported on in the Chairman's Statement, the Chief Executive Officer's Report and within the details of the Financial Statements. The Financial Statements set out the financial position of the Group.

Dividends and Profit Retention

The results for the year are set out in the Consolidated Income Statement. No dividend is proposed in respect of the year (2010: nil). The loss for the year of USD 12,368,049 (2010: USD 11,436,103) has been taken to reserves.

Directors

The directors who served during the year were:

C Palmer-Tomkinson	
D Golan	
A Novak	
L Naylor	
L Tao	(resigned 14 October 2011)
D Tang	(resigned 14 October 2011)
O Greene	(resigned 10 January 2011)
Dr R Weinberg	(appointed 11 January 2011)

In accordance with the Company's Articles of Association at least one third of the directors must retire by rotation at each Annual General Meeting, and may stand for re-appointment at the Meeting. Accordingly, the director retiring by rotation, L Naylor, being eligible, offers herself for re-appointment.

Directors' Interests

Share Interests

The directors of the Company who held office at 31 December 2011 held the following beneficial interests, either directly or indirectly, (including interests held by spouses, minor children or associated parties) in the ordinary shares of the Company at 30 April 2012:

	Number of Shares	Number of Options over Shares
C Palmer-Tomkinson	10,100,000	530,914
Dr R Weinberg	60,000	103,704
D Golan	14,620,755	4,523,081
A Novak	10,975,358	2,765,874
L Naylor	628,000	1,241,744
	36,384,113	**9,165,317**

Share Capital and Substantial Share Interests

Details of the Company's share capital are disclosed in note 17 of the financial statements.

On 30 April 2012, the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

	Number of Shares	%
China Nonferrous Metals Int'l Mining Co. Ltd	22,469,289	8.97
First State Investments International (UK) Ltd	18,776,152	6.97
D Golan	14,620,755	5.84
TT International Investment Management Ltd	12,237,780	4.89
Cazenove Capital Management Ltd	11,682,134	4.66
Richmond Capital	11,371,300	4.54
Alex Novak	10,975,358	4.38
BlackRock	10,500,000	4.19
C Palmer-Tomkinson	10,100,000	4.03
HSBC Fund Services, Hong Kong	8,431,449	3.37
GIC Asset Management Pte Ltd	8,166,293	3.26

Statement of Directors' Responsibilities

The directors are responsible for preparing the financial statements and have, as required by the AIM rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union in order to give a true and fair view of the state of affairs of the group and of its profit or loss for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping records that are sufficient to show and explain the company's transactions and will, at any time, enable the financial position of the company to be determined with reasonable accuracy. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the British Virgin Islands governing the preparation and dissemination of the company financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Corporate Governance

The Board is committed to maintaining high standards of corporate governance. The Listing Rules of the Financial Services Authority incorporate the UK Corporate Governance Code, which sets out the principles of Good governance, and the Code of Best Practice for listed companies. Whilst the Company is not required to comply with the UK Corporate Governance Code, the Company's corporate governance procedures take due regard of the principles of Good Governance set out in the UK Corporate Governance Code in relation to the size and the stage of development of the Company. The board is assisted in this regard by the remuneration and audit committees:

The remuneration committee

The remuneration committee comprises Rob Weinberg as Chairman and Christopher Palmer-Tomkinson. The committee meets as required during each financial year. It is responsible for reviewing the performance of the executive directors and for setting the scale and structure of their remuneration, having due regard to the interests of Shareholders as a whole and the performance of the Group. The remuneration committee also administers the Company's share option arrangements. The remuneration of the non-executive directors is reviewed by the Board.

Directors' emoluments are disclosed in note 6 to the financial statements. Directors' share options are disclosed under 'Directors' Interests' above.

The audit committee

The audit committee comprises Rob Weinberg as Chairman and Christopher Palmer-Tomkinson. The committee meets on at least two occasions each financial year. It reviews the Company's interim and annual financial statements before submission to the Board for approval, as well as regular reports from management and the external auditors on accounting and internal control matters. Where appropriate, the audit committee monitors the progress of action taken in relation to such matters. The audit committee also recommends the appointment of, and reviews the fees of, the external auditors.

Going concern and funding requirements

In common with many exploration and development groups, the Group raises finance for its exploration, appraisal and development activities in discrete tranches. A fund raising was completed in March 2011 which raised GBP 51.6 million before expenses (approximately USD 81.5 million). The funds were raised to fast track the Tulkubash Project to production including developing the required infrastructure. The Company is satisfied that the original budget, as presented when the funds were raised in March 2011, remains adequate to complete construction of all elements to commence production.

As announced on 16 April 2012, pending negotiations with the Kyrgyz government regarding the fiscal terms of the project, further capital investment activities (other than the infrastructure projects relating to power and roads and certain other key procurements which have already commenced and will be completed) will be suspended until agreement is reached. Chaarat has entered into direct negotiation with the Kyrgyz government, the aim of which is to secure long term stability for the Chaarat Project by the development of a mutually agreed investment agreement, containing a "stabilisation clause", protecting the Group from changes to taxation, ownership structure and royalties.

Based on a review of the Group's budgets and cash flow plans and the flexibility to alter these to suit prevailing circumstances, the Board considers this is sufficient to maintain the Group as a going concern for a period of over twelve months from the date of signing the annual report and accounts. The Board is satisfied that it has sufficient funds for going concern purposes whether or not agreement is reached with the government on a timely basis. However, additional funds of approximately USD20m will be required for working capital purposes to reach production. The Board believes, based on early indicators from suitable sources that the funding will be available but no such facility is currently in place. If a working capital facility is not put in place the Group may not be able to fully develop the Tulkubash project and the carrying value of the project may become impaired.

At 31 December 2011, the Group had cash and cash equivalents of USD 61.1million and no borrowings.

Provision of information to auditor

In the case of each of the directors who are directors of the company at the date when this report is approved:

- So far as they are individually aware, there is no relevant audit information of which the company's auditor is unaware; and
- Each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of the information.

Auditor

A resolution for the reappointment of PKF (UK) LLP will be proposed at the forthcoming annual general meeting. PKF (UK) LLP have expressed their willingness to continue as auditor of the company.

L Naylor

Linda Naylor
Company Secretary
31 May 2012

Independent Auditor's Report to the Members of Chaarat Gold Holdings Limited

We have audited the group financial statements ("the financial statements") of Chaarat Gold Holdings Limited for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2011 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union.

Emphasis of matter – adequacy of project funding

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the requirement for the Group to raise further funding to enable the Tulkubash Project to be brought into production. If the Group is unable to secure the additional funding it may not be able to fully develop the project and the carrying value of this project may become impaired.

PKF(UK)LLP

PKF (UK) LLP
London, UK
31 May 2012

Consolidated Income Statement

For the years ended 31 December

	Note	2011 USD	2010 USD
Exploration expenses		(5,984,284)	(7,242,318)
Administrative expenses		(5,278,133)	(3,451,225)
Administrative expenses- Share options expense		(1,590,898)	(588,587)
Administrative expenses- Foreign exchange loss		(331,856)	(168,336)
Total administrative expenses		(7,200,887)	(4,208,148)
Other operating income		97,254	-
Operating loss	3	(13,087,917)	(11,450,466)
Financial income	7	719,868	14,363
Taxation	23	-	-
Loss for the year, attributable to equity shareholders of the parent		**(12,368,049)**	**(11,436,103)**
Loss per share (basic and diluted) – USD cents	19	(5.31)c	(9.12)c

Consolidated Statement of Comprehensive Income

For the years ended 31 December

	2011 USD	2010 USD
Loss for the year, attributable to equity shareholders of the parent	**(12,368,049)**	**(11,436,103)**
Other comprehensive income:		
Exchange differences on translating foreign operations	13,154	(143,478)
Other comprehensive income for the year, net of tax	13,154	(143,478)
Total comprehensive income for the year attributable to equity shareholders of the parent	**(12,354,895)**	**(11,579,581)**

Consolidated Balance Sheet

At 31 December

	Note	2011 USD	2010 USD
Assets			
Non-current assets			
Intangible assets	8	34,297	20,082
Mining exploration assets	9	8,349,367	8,349,367
Mine properties	10	3,949,756	-
Property, plant and equipment	11	2,134,419	596,502
Assets in construction	12	6,510,020	-
Other receivables	13	1,543,050	50,456
		22,520,909	**9,016,407**
Current assets			
Inventories	14	1,328,367	150,035
Trade and other receivables	15	6,521,197	1,619,590
Cash and cash equivalents	16	61,184,915	10,124,977
		69,034,479	11,894,602
Total assets		**91,555,388**	**20,911,009**
Equity and liabilities			
Equity attributable to shareholders			
Share capital	17	2,504,778	1,470,339
Share premium	17	128,551,662	48,949,592
Other reserves		14,308,874	13,839,590
Translation reserve		(1,070,180)	(1,083,334)
Accumulated losses		(55,420,195)	(44,173,760)
Total equity		**88,874,939**	**19,002,427**
Non-current liabilities			
Deferred tax	22	460,189	487,000
		460,189	**487,000**
Current liabilities			
Trade and other payables	20	1,096,066	646,788
Accrued liabilities	21	1,124,194	774,794
		2,220,260	1,421,582
Total liabilities		**2,680,449**	**1,908,582**
Total liabilities and equity		**91,555,388**	**20,911,009**

The financial statements were approved and authorised for issue by the Board of Directors on 31 May 2012.

Dekel Golan
Chief Executive Officer

Consolidated Statement of Changes in Equity

For the Years Ended 31 December

	Note	Share Capital USD	Share Premium USD	Accumulated Losses USD	Other Reserves USD	Translation Reserve USD	Total USD
Balance at 31 December 2009		**1,129,110**	**27,499,843**	**(32,798,843)**	**13,312,190**	**(939,856)**	**8,202,444**
Currency translation		-	-	-	-	(143,478)	(143,478)
Other comprehensive income		**-**	**-**	**-**	**-**	**(143,478)**	**(143,478)**
Loss for the year ended 31 December 2010		-	-	(11,436,103)	-	-	(11,436,103)
Total comprehensive income for the year		**-**	**-**	**(11,436,103)**	**-**	**(143,478)**	**(11,579,581)**
Share options lapsed		-	-	61,186	(61,186)	-	-
Share options expense		-	-	-	588,586	-	588,586
Issuance of shares for acquisition		119,282	7,500,134	-	-	-	7,619,416
Issuance of shares for cash		221,947	14,386,364	-	-	-	14,608,311
Share issue costs		-	(436,749)	-	-	-	(436,749)
Balance at 31 December 2010		**1,470,339**	**48,949,592**	**(44,173,760)**	**13,839,590**	**(1,083,334)**	**19,002,427**
Currency translation		-	-	-	-	13,154	13,154
Other comprehensive income		**-**	**-**	**-**	**-**	**13,154**	**13,154**
Loss for the year ended 31 December 2011		-	-	(12,368,049)	-	-	(12,368,049)
Total comprehensive income for the year		**-**	**-**	**(12,368,049)**	**-**	**13,154**	**(12,354,895)**
Share options lapsed		-	-	1,121,614	(1,121,614)	-	-
Share options expense		-	-	-	1,590,898	-	1,590,898
Issuance of shares for cash		1,034,439	83,036,336	-	-	-	84,070,775
Share issue costs			(3,434,266)				(3,434,266)
Balance at 31 December 2011	**17 (b)**	**2,504,778**	**128,551,662**	**(55,420,195)**	**14,308,874**	**(1,070,180)**	**88,874,939**

Consolidated Cash Flow Statement

For the Years Ended 31 December

	Note	2011 USD	2010 USD
Operating activities			
Loss for the year		(12,368,049)	(11,436,103)
Adjustments:			
Amortisation expense - intangible assets	8	18,545	25,520
Depreciation expense - property, plant and equipment	11	576,871	490,024
Loss on disposal of property, plant and equipment	3	(97,254)	5,094
Finance income	7	(719,868)	(14,363)
Share based payments	3	1,590,898	588,587
Losses/(gains) on foreign exchange		329,805	(42,590)
(Increase)/decrease in inventories		(942,364)	8,553
Increase in accounts receivable		(6,359,430)	(1,080,142)
Increase in accounts payable		24,337	688,041
Net cash flow used in operations		**(17,946,509)**	**(10,767,379)**
Investing activities			
Purchase of computer software	8	(34,086)	(3,664)
Purchase of tangible assets		(12,156,715)	(98,445)
Acquisition of subsidiary (net of cash acquired)		(143,847)	5,865
Proceeds from sale of equipment		293,263	-
Loans repaid		-	4,407
Interest received	7	719,868	14,363
Net cash used in investing activities		**(11,321,517)**	**(77,474)**
Financing activities			
Proceeds from issue of share capital	17	84,070,775	14,608,310
Issue costs	17	(3,434,266)	(436,749)
Net cash from financing activities		80,636,509	14,171,561
Net change in cash and cash equivalents		51,368,483	3,326,708
Cash and cash equivalents at beginning of the year		10,124,977	6,812,046
Effect of changes in foreign exchange rates		(308,545)	(13,777)
Cash and cash equivalents at end of the year	**16**	**61,184,915**	**10,124,977**

Notes to the Financial Statements

1 GENERAL INFORMATION AND GROUP STRUCTURE

Chaarat Gold Holdings Limited (the Company) (registration number 1420336) was incorporated in the British Virgin Islands (BVI), and acts as the ultimate holding company for the Group. The Company is listed on the Alternative Investment Market of the London Stock Exchange.

The legal address of the Company is: Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands, VG1110. The Group's principal place of business is at: 15th floor, 19 Razzakova Street, Bishkek, the Kyrgyz Republic, 720040.

At 31 December the Group consisted of the following companies all of which are wholly owned:

Group company	Country of incorporation	Principal activity
Chaarat Gold Holdings Limited	BVI	Ultimate holding company
Zaav Holdings Limited	BVI	Holding company
Chon-tash Holdings Limited	BVI	Holding company
At-Bashi Holdings Limited	BVI	Holding company
Akshirak Holdings Limited	BVI	Holding company
Naryn Holdings Limited	BVI	Holding company
Goldex Asia Holdings Limited	BVI	Holding company
Chon-tash Mining LLC*	Kyrgyz Republic	Exploration
At-Bashi Mining LLC*	Kyrgyz Republic	Exploration
Akshirak Mining LLC*	Kyrgyz Republic	Exploration
Naryn Gold LLC*	Kyrgyz Republic	Exploration
Goldex Asia LLC*	Kyrgyz Republic	Exploration
Chaarat Zaav CJSC*	Kyrgyz Republic	Exploration
Geoservices KG LLC*	Kyrgyz Republic	Exploration
Chaarat Operating Company GmbH	Switzerland	Management and Operating Company

* Companies owned indirectly by Chaarat Gold Holdings Limited
Chaarat Operating Company GmbH has registered a branch office in the Kyrgyz Republic.

2 ACCOUNTING POLICIES

The significant accounting policies, areas of judgement and significant estimates that have been used in the preparation of these consolidated financial statements are summarised below:

SIGNIFICANT AREAS OF JUDGEMENT AND ESTIMATION

- During the exploration phase of operations, all exploration costs are expensed in the Income Statement as incurred. The mining exploration and development costs accounting policy provides further detail. The key judgement implicit in this policy is the determination of the date upon which development of the property is judged to be commercially viable and development commenced. During 2011 development of the Tulkubash deposit commenced.

- A provision is made against certain VAT recoverable items, in view of the uncertainty of the timing or ultimate recoverability of these amounts. Note 13 provides further detail. The key to any re-assessment of this policy would be the first successful claims for refund of VAT input taxes. This possibility is judged to be some years into the future.

- Depreciation rates detailed below are considered by management to fairly reflect the expected useful lives of the respective asset categories. The property, plant and equipment accounting policy provides further detail.

- The expected life of share options used in the Black Scholes model for calculating the fair value of those options is based on management's best estimate, adjusted for the effects of non-transferability, exercise restrictions, and behavioural considerations.

- No deferred tax assets are recognised in view of the uncertainty of the timing or ultimate recoverability of such amounts. Note 22 provides further detail. This is a key judgement in that the amounts potentially involved are not capable of reasonably accurate computation and are uncertain of recovery.

- The directors accounted for the Company's acquisition in the year ended 31 December 2007 as a reverse acquisition by way of a share exchange, by its then operating subsidiary, Chaarat Gold Limited. At the time of the share exchange on 7 September 2007, the Company was recently incorporated, had no business and had nil net asset value. The Group's consolidated financial statements are presented as a continuation of the financial statements of its former subsidiary, Chaarat Gold Limited.

- The acquisition of the Kyrex group of companies on 27 July 2010 has been accounted for under the acquisition method of accounting which required the determination of the fair value of the consideration shares in the Company issued to the shareholders of Kyrex Limited and the fair value of the assets and liabilities acquired. An independent report providing a fair value range for the consideration of the exploration assets acquired was commissioned from SRK Consulting (UK) Limited and used by the Board in their determination of the final value.

- The acquisition of Geoservices KG on 28 December 2011 has been accounted for under the acquisition method of accounting which required the determination of the fair value of the assets and liabilities acquired.

BASIS OF PREPARATION

The financial information has been prepared in accordance with IFRS as adopted by the European Union. As detailed under the Basis of consolidation note, the acquisition of the Company in 2007 was treated as a reverse acquisition by its then operating subsidiary, without the presence of goodwill. The principal accounting policies adopted in the preparation of the annual financial statements are set out below. The policies have been consistently applied.

There are no new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") that are relevant to its operations and effective for accounting periods beginning 1 January 2011.

The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

GOING CONCERN AND FUNDING REQUIREMENTS

In common with many exploration and development groups, the Group raises finance for its exploration, appraisal and development activities in discrete tranches. A fund raising was completed in March 2011 which raised GBP 51.6 million before expenses (approximately USD 81.5 million). The funds were raised to fast track the Tulkubash Project to production including developing the required infrastructure. The Company is satisfied that the original budget, as presented when the funds were raised in March 2011, remains adequate to complete construction of all elements to commence production.

As announced on 16 April 2012, pending negotiations with the Kyrgyz government regarding the fiscal terms of the project, further capital investment activities (other than the infrastructure projects relating to power and roads and certain other key procurements which have already commenced and will be completed) will be suspended until agreement is reached. Chaarat has entered into direct negotiation with the Kyrgyz government, the aim of which is to secure long term stability for the Chaarat Project by the development of a mutually agreed investment agreement, containing a "stabilisation clause", protecting the Group from changes to taxation, ownership structure and royalties.

Based on a review of the Group's budgets and cash flow plans and the flexibility to alter these to suit prevailing circumstances, the Board considers this is sufficient to maintain the Group as a going concern for a period of over twelve months from the date of signing the annual report and accounts. The Board is satisfied that it has sufficient funds for going concern purposes whether or not agreement is reached with the government on a timely basis. However, additional funds of approximately USD20m will be required for working capital purposes to reach production. The Board believes, based on early indicators from suitable sources, that the funding will be available but no such facility is currently in place. If a working capital facility is not put in place the Group may not be able to fully develop the Tulkubash project and the carrying value of the project may become impaired.

At 31 December 2011, the Group had cash and cash equivalents of USD 61.1million and no borrowings.

BASIS OF CONSOLIDATION

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, that entity or business is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. As permitted by BVI law the Company has not presented its own financial information.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The consideration for acquisition is measured at the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in order to obtain control of the acquiree (at the date of exchange). Costs incurred in connection with the acqueisition are recognised in profit or loss as incurred.

Adjustments are made to fair values to bring the accounting policies of acquired businesses into alignment with those of the Group. The costs of integrating and reorganising acquired businesses are charged to the post acquisition profit or loss.

FUNCTIONAL CURRENCY OF THE PARENT

Management has concluded that the US dollar is the currency of the primary economic environment in which the entity operates because a significant portion of the transactions and settlements of the Company are influenced by the US Dollar. The Company's assets and liabilities are largely denominated and settled in US Dollars. The US Dollar is the currency in which business risks and exposures are managed and the business is measured

CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company considers in its management of capital all components included in shareholders' equity and its debt obligations. Its objectives are to ensure that the Company will continue to operate as a going concern in order to pursue the development of its mineral properties, to sustain future development and growth as well as to maintain a flexible capital structure which optimises the cost of capital at an acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares, seek debt financing, or acquire or dispose of assets. The Company, following approval from the Board of Directors, will make changes to its capital structure as deemed appropriate under specific circumstances.

CASH AND CASH EQUIVALENTS

Cash includes petty cash and cash held in current bank accounts. Cash equivalents include short-term investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

INTEREST

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less any subsequent accumulated depreciation and impairment losses. The historical cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use.

Cost includes professional fees but borrowing costs are not capitalised. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged on each part of an item of property, plant and equipment so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method. Depreciation is charged to the income statement, unless it is considered to relate to the construction of another asset, in which case it is capitalised as part of the cost of that asset. Land and assets in the course of construction are not depreciated. The estimated useful lives are as follows:

Buildings	-	5 years
Office equipment	-	2.5 to 3 years
Machinery and equipment	-	3 years
Motor vehicles	-	5 years
Furniture and facilities	-	3 to 5 years
Leasehold improvements	-	over the term of the lease

Residual values, remaining useful lives and deprecation methods are reviewed annually and adjusted if appropriate. Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishments and improvements expenditure, where the benefit enhances the capabilities or extends the useful life of an asset, is capitalised as part of the appropriate asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

INTANGIBLE ASSETS – COMPUTER SOFTWARE

Computer software is initially capitalised at cost and amortisation is provided on a straight line basis over a period of 3 years. The carrying value is regularly reviewed and a provision made in the year that impairment or obsolescence is determined by management to have occurred.

INTANGIBLE ASSETS – ACQUIRED MINING EXPLORATION ASSETS

Mining exploration assets acquired on the acquisition of subsidiaries are carried in the balance sheet at their fair value at the date of acquisition less any impairment losses, pending determination of technical feasibility and commercial viability of those projects.

When such a project is deemed to no longer have technical or commercially viable prospects to the Group, acquired mining exploration costs in respect of that project are deemed to be impaired and written off to the income statement.

Subsequent mining exploration costs incurred on those projects are expensed in accordance with the Group's accounting policy below.

MINING EXPLORATION AND DEVELOPMENT COSTS

During the exploration phase of operations, all costs are expensed in the Income Statement as incurred.

A subsequent decision to develop a mine property within an area of interest is based on the exploration results, an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, development and other expenditures relating to the project are capitalised and carried at cost with the intention that these will be depreciated by charges against earnings from future mining operations over the relevant life of mine on a units of production basis. Expenditure is only capitalised provided it meets the following recognition requirements:

- completion of the project is technically feasible and the company has the ability to and intends to complete it;
- the project is expected to generate future economic benefits;
- there are adequate technical, financial and other resources to complete the project; and
- the expenditure attributable to the development can be measured reliably.

No depreciation is charged against the property until commercial production commences. After a mine property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programmes, which will be deferred and depreciated over the remaining life of the related assets.

The carrying values of exploration and development expenditures in respect of each area of interest which has not yet reached commercial production are periodically assessed by management and where it is determined that such expenditures cannot be recovered through successful development of the area of interest, or by sale, the expenditures are written off to the income statement

IMPAIRMENT TESTING

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment. Where the asset does not generate cash flows that are independent from other assets, the Group assesses the cash-generating unit to which the asset belongs for impairment. Intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise and typically when one of the following circumstances apply:

i. unexpected geological occurrences that render the resource uneconomic;

ii. title to the asset is compromised;

iii. variations in metal prices that render the project uneconomic; and

iv. variations in the currency of operation.

If any indication of impairment exists, the recoverable amount of the asset is estimated, being the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Such impairment losses are recognised in profit or loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

LEASED ASSETS

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date the asset is initially recognised or the date of entering into the lease agreement.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

TAXATION

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items of other comprehensive income, in which case the related deferred tax is also charged or credited to other comprehensive income.

INVENTORIES

Inventories consist of equipment spares and consumables which are stated at the lower of cost or net realisable value. Cost is calculated using the average cost method. Net realisable value is the estimated value in use for the exploration work for which the inventories are acquired

EQUITY

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- “Other reserves" represent the difference between the issued share capital and share premium of Chaarat Gold Holdings Limited and its former subsidiary Chaarat Gold Limited arising as a result of the reverse acquisition as explained above, plus the equity component of share options issued.
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Accumulated losses" include all current and prior period results as disclosed in the income statement.

FOREIGN CURRENCY

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement. The presentation currency is the US dollar. This is also the functional currency of the Company and is considered by the Board also to be appropriate for the purposes of preparing the Group financial statements.

On consolidation, the results of overseas operations are translated into US dollars, the presentation currency, at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at the actual rate are recognised directly in equity.

The exchange rates at year-end used by the Group in the preparation of the historical financial information are as follows:

	2011	2010	2009
Kyrgyz Som (KGS) to 1 US dollar (USD)	46.4847	47.0992	44.0917
Kyrgyz Som (KGS) to 1 UK pound (GBP)	71.6585	72.6077	70.4012
US dollar (USD) to 1 UK pound (GBP)	1.5416	1.5416	1.5967

SHARE-BASED EMPLOYEE REMUNERATION

The Company operates equity-settled share-based remuneration plans for remuneration of some of its employees. The Company awards share options to certain Company directors and employees to acquire shares of the Company.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee.

The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserves".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

RETIREMENT AND OTHER BENEFIT OBLIGATIONS

The Group does not offer any pension arrangements other than those provided under the State pension system of the Kyrgyz Republic, which requires current contributions by the employer, calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Group does not have any obligations in respect of post-retirement or other significant compensation benefits.

FINANCIAL INSTRUMENTS

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised on trade date when the group becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value plus, in the case of a financial instrument not at fair value through profit and loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments are derecognised on trade date when the group is no longer a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are stated at their original invoiced value, as the interest that would be recognised from discounting future cash receipts over the short credit period is not considered to be material. Trade receivables are reduced by appropriate allowances for estimated irrecoverable amounts. Interest on overdue trade receivables is recognised as it accrues.

Trade payables

Trade payables are stated at their original invoiced value, as the interest that would be recognised from discounting future cash payments over the short period is not considered to be material.

3 OPERATING LOSS

The operating loss is stated after charging:

	2011 USD	2010 USD
Depreciation of property, plant and equipment	576,871	490,024
Amortisation of intangible assets	18,545	25,520
Operating lease expenses	430,125	78,967
Share based payment charges	1,590,898	588,587
(Profit)/loss on sale of fixed assets	(97,254)	5,094
Loss on foreign exchange	331,856	168,336
Auditor’s remuneration - all services	90,491	56,357
Acquisition related costs	6,422	58,528

4 SEGMENTAL ANALYSIS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group's operations relate to the exploration for, and development of mineral deposits in the Kyrgyz Republic with support provided from the British Virgin Islands and as such the Group has only one reportable segment. The non-current assets in the Kyrgyz Republic are USD 23,946,213 (2010: USD 9,016,407).

5 STAFF NUMBERS AND COSTS

	Number	Number
Management and administration	57	24
Operations	79	47
	136	**71**

The aggregate payroll costs of these persons were as follows:	**2011 USD**	**2010 USD**
Staff wages and salaries	2,636,024	762,588
Social security and other pension costs	169,447	111,158
Employee share based payment charges	1,151,869	281,899
Directors' remuneration as detailed in note 6		
Wages and salaries	1,597,489	954,756
Pension contributions	23,184	20,150
Share based payment charge	439,029	306,688
	6,017,042	**2,437,239**

Share based payment charges relate to the notional charge attributed to share options granted.

6 DIRECTORS' REMUNERATION

The costs of certain directors' services were charged to the Company via consultancy companies, as separately detailed below and in the related parties note 24, rather than directly as short-term employment costs. During 2012 bonuses and additional payments in respect of non contractual services were paid to the following directors in respect of their services in 2011:
Dekel Golan USD 208,269 (2010: USD 51,568), Alex Novak USD 105,076 (2010: USD 32,489), Linda Naylor USD 92,736 (2010: USD 38,678).
Linda Naylor received voluntary pension contributions in the year of USD 23,184 (2010: USD 20,150).

Wages and salaries (including bonus)	**2011 USD**	**2010 USD**
Paid directly	51,950	84,920
Paid via related party consultancy companies	1,568,723	889,986
Share based payment charge	439,029	306,688
Total	**2,059,702**	**1,281,594**

The highest paid director received emoluments totaling USD 602,196 (2010: USD 359,130) and share based payments of USD 162,504 (2010: USD 108,817).

Share based payment charges relate to the notional charge attributed to share options granted.

Details of individual directors' remuneration are shown below:

	2011 USD	**2010 USD**
D Golan (paid via related party, Mada Consulting Pte Limited)	602,196	359,130
A Novak (paid via related party, Vetan Limited)	504,207	230,385
L Naylor (paid via related party, Central Asia Services Limited)	361,238	238,587
C Palmer-Tomkinson (paid directly)	42,744	42,460
O Greene (paid directly)	9,207	42,460
L Tao (paid to China Nonferrous Metals Int'l Mining Co Ltd)	29,859	30,942
D Tang (paid to China Nonferrous Metals Int'l Mining Co Ltd)	29,859	30,942
Dr R Weinberg (paid directly)	41,364	-
Total	**1,620,674**	**974,906**

7 FINANCE INCOME

	2011 USD	2010 USD
Interest on cash and cash equivalents	706,900	6,378
Unwinding of discount on loan	-	1,736
Loan interest receivable	1,380	1,292
Other income	11,588	4,957
	719,868	**14,363**

8 INTANGIBLE ASSETS - COMPUTER SOFTWARE

Cost	**USD**
At 31 December 2009	108,952
Additions	3,664
Reclassification as property, plant and equipment	(8,185)
Disposals	(20,397)
Exchange differences	(5,198)
At 31 December 2010	78,836
Additions	34,086
Exchange differences	(715)
At 31 December 2011	**112,207**

Amortisation	**USD**
At 31 December 2009	48,394
Charge for the year	25,520
Reclassification as property, plant and equipment	(4,775)
Released on disposals	(7,418)
Exchange differences	(2,967)
At 31 December 2010	58,754
Charge for the year	18,545
Exchange differences	611
At 31 December 2011	**77,910**

Carrying amounts	**USD**
At 31 December 2011	**34,297**
At 31 December 2010	**20,082**
At 31 December 2009	**60,558**

9 INTANGIBLE ASSETS – MINING EXPLORATION ASSETS

	Chontash USD	Mironovskoye USD	Kyzil Ompul USD	Total USD
At 31 December 2009	-	-	-	-
On acquisition of subsidiaries (see note 18)	4,592,152	2,504,810	1,252,405	8,349,367
At 31 December 2010	**4,592,152**	**2,504,810**	**1,252,405**	**8,349,367**
At 31 December 2011	**4,592,152**	**2,504,810**	**1,252,405**	**8,349,367**

Carrying amounts

At 31 December 2011	**4,592,152**	**2,504,810**	**1,252,405**	**8,349,367**
At 31 December 2010	**4,592,152**	**2,504,810**	**1,252,405**	**8,349,367**
At 31 December 2009	-	-	-	-

10 MINE PROPERTIES

	USD
At 31 December 2010	-
Capitalisation of Tulkubash development	3,949,756
At 31 December 2011	**3,949,756**

Carrying amounts

At 31 December 2011	**3,949,756**
At 31 December 2010	-

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings USD	Machinery and equipment USD	Office equipment USD	Furniture and facilities USD	Motor vehicles USD	Leasehold improvements USD	Total USD
Cost							
At 31 December 2009	110,178	1,998,368	47,935	16,261	210,299	4,591	2,387,632
Additions	9,861	35,792	25,612	11,384	13,771	2,025	98,445
On acquisition of subsidiary	-	18,055	27,297	15,194	12,983	-	73,529
Disposals	-	(768,667)	(1,653)	(263)	-	-	(770,583)
Exchange differences	(6,840)	(87,280)	(1,750)	(393)	(27,759)	(346)	(124,368)
At 31 December 2010	**113,199**	**1,196,268**	**97,441**	**42,183**	**209,294**	**6,270**	**1,664,655**
Additions	262,526	1,059,831	95,748	32,758	185,770	60,306	1,696,939
On acquisition of subsidiary	-	522,471	3,750	-	85,100	-	611,321
Disposals	-	(430,224)	(5,263)	(6,586)	(42,204)	(6,411)	(490,688)
Exchange differences	(1,133)	5,979	101	(6,395)	(3,590)	(409)	(5,447)
At 31 December 2011	**374,592**	**2,354,325**	**191,777**	**61,960**	**434,370**	**59,756**	**3,476,780**
Depreciation							
At 31 December 2009	46,492	984,655	34,869	12,036	83,259	4,556	1,165,867
Charge for the year	53,892	372,067	19,742	5,412	38,746	165	490,024
On acquisition of subsidiaries	-	13,642	22,985	13,453	12,983	-	63,063
Disposals	-	(593,706)	(1,414)	(262)	-	-	(595,382)
Exchange differences	(2,226)	(42,328)	(586)	(686)	(9,294)	(299)	(55,419)
At 31 December 2010	**98,158**	**734,330**	**75,596**	**29,953**	**125,694**	**4,422**	**1,068,153**
Charge for the year	31,535	438,658	30,847	9,864	53,453	12,514	576,871
Disposals	-	(267,305)	(1,213)	(6,586)	(14,711)	(4,864)	(294,679)
Exchange differences	(126)	2,968	168	(6,368)	(4,618)	(8)	(7,984)
At 31 December 2011	**129,567**	**908,651**	**105,398**	**26,863**	**159,818**	**12,064**	**1,342,361**
Net book value							
At 31 December 2011	**245,025**	**1,445,674**	**86,379**	**35,097**	**274,552**	**47,692**	**2,134,419**
At 31 December 2010	**15,041**	**461,938**	**21,845**	**12,230**	**83,600**	**1,848**	**596,502**
At 31 December 2009	**63,686**	**1,013,713**	**13,066**	**4,225**	**127,040**	**35**	**1,221,765**

The Group's property, plant and equipment are free from any mortgage or charge.

12 TANGIBLE ASSETS - ASSETS IN CONSTRUCTION

	USD
At 31 December 2010	-
Additions	6,510,020
At 31 December 2011	**6,510,020**

Carrying amounts

At 31 December 2011	**6,510,020**
At 31 December 2010	-

13 OTHER RECEIVABLES

Long term receivables

	2011 USD	2010 USD
VAT balance at 31 December	**3,474,762**	2,009,146
Less provision	**(1,931,712)**	(1,958,690)
VAT recoverable amount	**1,543,050**	50,456

Chaarat Zaav is a registered value added tax payer in the Kyrgyz Republic and therefore has a right to be reimbursed for value added tax paid on purchased goods and services.The Group's management has provided against this asset as at 31 December 2011 and 31 December 2010 due to uncertainty regarding the timing of recovery. Chaarat Operating Company GmbH (Kyrgyz branch) has incurred VAT on the provision of services and the balance is considered recoverable.

14 INVENTORIES

	2011 USD	2010 USD
Equipment spares and consumables	**1,328,367**	**150,035**

Inventories of spare parts and consumables are recorded at the lower of cost price or estimated value in future use. They are not held for re-sale but are utilised in the Company's exploration and development activities. No write-downs or reversals have occurred during the respective periods.

No inventories are pledged against payables or other obligations.

15 TRADE AND OTHER RECEIVABLES

	2011 USD	2010 USD
Advance payments to sub-contractors	6,257,572	1,339,668
Reserve for advance payments to sub-contractors	(3,294)	(2,992)
Loans to sub-contractors	192,927	119,612
Other receivables	73,992	163,302
	6,521,197	**1,619,590**

Advance payments to sub-contractors

The advance payments were made in relation to contracts entered into with service sub-contractors to provide working capital for those companies. The advance payments are to be repaid by way of deductions from works performed.
The short-term carrying values are considered to be a reasonable approximation of the fair value.

Loans to sub-contractors

The loans to sub-contractors were made to provide working capital.

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 31 December consisted of the following:

	2011 USD	2010 USD
Cash		
Cash in hand	39,548	41,182
Cash Equivalents		
Short-term deposits held in Guernsey	60,073,511	9,686,833
Short-term deposits held in Switzerland	21,049	21,028
Short-term deposits held in the Kyrgyz Republic	1,050,807	375,934
	61,184,915	**10,124,977**

17 SHARE CAPITAL AND SHARE PREMIUM ACCOUNTS

The share capital of Chaarat Gold Holdings Limited consists of ordinary shares of a single class. All shares have equal rights to receive dividends or capital repayments and all shares represent one vote at meetings of Chaarat Gold Holdings Limited.

(a) Authorised share capital

Chaarat Gold Holdings Limited - ordinary shares of USD 0.01 each	Number of Shares	Nominal Value USD
Authorised at 31 December 2010 and 2011	500,000,000	5,000,000

(b) Changes in issued share capital and share premium:

Ordinary shares of USD0.01 each	Number of shares	Nominal Value USD	Share premium USD	Total USD
1 January 2010	112,911,003	1,129,110	27,499,843	28,628,953
Shares issued 5 July 2010	9,634,675	96,347	5,759,609	5,855,956
Share issue costs charged to share premium	-	-	(298,830)	(298,830)
Shares issued 28 July 2010	11,928,222	119,282	7,500,134	7,619,416
Shares issued 24 September 2010	6,860,000	68,600	4,450,274	4,518,874
Share issue costs charged to share premium	-	-	(137,919)	(137,919)
Shares issued 9 November 2010	5,700,000	57,000	4,176,481	4,233,481
31 December 2010	**147,033,900**	**1,470,339**	**48,949,592**	**50,419,931**
Shares issued 10 February 2011	3,147,798	31,478	2,506,593	2,538,071
Shares issued 2 March 2011	100,142,670	1,001,426	80,469,763	81,471,189
Share issue costs charged to share premium	-	-	(3,434,266)	(3,434,266)
Shares issued 27 May 2011	26,000	260	10,351	10,611
Shares issued 12 July 2011	127,500	1,275	49,629	50,904
31 December 2011	**250,477,868**	**2,504,778**	**128,551,662**	**131,056,440**

On 10 February 2011 the Company made a private placing of 3,147,798 shares to various parties at 50p per share.
On 2 March 2011 the Company completed the private placing and issued 100,142,670 shares to various parties at 50p per share.
On 27 May and 12 July 2011 26,000 and 127,500 shares were issued respectively as the result of the exercise of share options.

(c) Potential issue of ordinary shares

Share options

At 31 December 2011 the Company had options of 14,368,711 (2010: 11,125,253) outstanding for the issue of ordinary shares as follows:

Share Options held at 31 December 2011	Option Price	Exercise Period
300,000	USD 1.0633	16/10/07 to 16/10/15
180,000	GBP 0.54	01/07/08 to 01/07/16
5,100,000	USD 0.9166	08/11/08 to 16/10/17
180,000	GBP 0.54	30/06/09 to 30/06/16
100,000	USD 1.0633	01/09/09 to 02/11/16
200,000	USD 1.0633	01/09/09 to 01/07/17
265,750	GBP 0.54	08/08/12 to 08/08/17
267,561	GBP 0.25	08/08/12 to 08/08/17
834,000	GBP 0.25	01/09/12 to 01/09/17
1,615,037	GBP 0.41	25/02/13 to 25/02/18
1,253,806	GBP 0.61	22/12/13 to 22/12/18
400,000	GBP 1.00	8 years after commissioning of Tulkubash project
3,672,557	GBP 0.27	22/12/12 to 22/12/19
14,368,711		

All options are share settled

	Options	**2011**	Options	2010
		Weighted average exercise price (USD)		Weighted average exercise price (USD)
Outstanding at 1 January	**11,125,253**	**0.921**	7,813,823	0.852
Granted during the year	**15,072,557**	**1.441**	3,399,112	0.791
Exercised during the year	**153,500**	**0.401**	-	-
Forfeited during the year	**11,675,599**	**1.694**	(87,682)	0.515
Outstanding at 31 December	**14,368,711**	**0.732**	**11,125,253**	0.818
Exercisable at 31 December	**6,899,281**	**0.952**	**6,442,750**	0.921

The share options outstanding at 31 December 2011 had a weighted average exercise price of USD 0.732 and a weighted average remaining contractual life of 6.52 years.

Fair value assumptions for share option charges

The fair value of options granted on 22 December 2011 has been assessed by using the Black-Scholes Option Valuation Model, using the following inputs:

Share price when issued	USD 0.722
Exercise prices	USD 1.441
Expected volatility	67.53%
Expected life	years 3.5
Risk free rate (US Federal Funds Rate)	0.19%
Expected dividends	Nil
Average fair value per option	USD 0.1246

The expected volatility used in the Valuation Model has been derived from the weighted average volatility of the Company's share price since Initial Public Offering and a proxy of nine AIM listed gold exploration companies for whom trading data was available over the relevant periods prior to IPO.

A total of USD 1,590,898 (2010: USD 588,587) of employee remuneration expense has been included in the consolidated income statement.

18 ACQUISITIONS

On 28 December 2011, Chaarat Operating Company GmbH completed the acquisition of 100% of the share capital of Geoservices KG LLC ("Geoservices"), an exploration contractor company. The total consideration was USD 214,195. The fair value of the assets acquired was USD 214,195 being the net of USD 988,213 and USD 774,338 of net liabilities. Details of the net assets acquired and the fair value adjustments are set out below:

	Book value USD'000	Fair value adjustment USD'000	Fair Value USD'000
Tangible fixed assets	310	301	611
Deferred tax assets	27		27
Inventories	236		236
Receivable	44		44
Cash	70		70
Intangible assets	114	(114)	0
Payables	(63)		(63)
Advances received	(482)		(482)
Short-term accrued liabilities	(87)		(87)
Loans payable	(142)		(142)
Net assets acquired	**27**	**187**	**214**
Consideration			**214**

On 28 July 2010 the Company completed the acquisition of 100% of the issued and to be issued share capital of Kyrex Limited, a holding company of a number of exploration companies with activities in the Kyrgyz Republic, in a share for share transaction comprising 54 fully paid Chaarat ordinary shares for each Kyrex share. The total consideration was 11,928,222 Chaarat shares. Based on the Volume Weighted Average Price per Chaarat share on 28 July 2010 of 41.13p and a GBP:USD exchange rate of 1.5532 this represents a total consideration of USD 7,619,416.

As the Chaarat project moved into development management wished to maximise the value of Chaarat's experienced exploration team on other prospective licences. Kyrex was a suitable target holding a number of promising licence areas in the Kyrgyz Republic.

The fair value of assets acquired was USD 7,619,416 being the net of USD 7,862,367 of exploration assets and USD 242,951 of net liabilities. The exploration assets were independently valued. Details of the net assets acquired and fair value adjustments are set out below.

	Book value USD'000	Fair value adjustment USD'000	Fair Value USD'000
Intangible fixed assets	-	8,349	8,349
Tangible fixed assets	10	-	10
Inventories	2	-	2
Receivable	1	-	1
Cash	6	-	6
Payables	(144)	-	(144)
Deferred tax liability	-	(487)	(487)
Loans payable	(118)	-	(118)
Net assets acquired	**(243)**	**7,862**	**7,619**
Consideration			**7,619**

The fair value adjustments in respect of intangible assets are due to the recognition of USD 7,862,000 in respect of exploration assets which were independently valued in June 2010.

The acquisition related costs totalled USD 58,528. These costs are recognised as an expense in the Administrative expenses line of the income statement. The contribution to the net loss of the group was USD 270,588. Had the business combination been effective for the full year, the loss for the year from continuing operations would have been USD 371,659.

19 LOSS PER SHARE

Loss per share is calculated by reference to the loss for the year of USD 12,368,049 (2010: USD 11, 436,103) and the weighted number of shares in issue during the year of 232,963,591 (2010: 125,387,960)
There is no dilutive effect of share options.

20 TRADE AND OTHER PAYABLES

Trade and other payables at 31 December consisted of the following:

	2011 USD	2010 USD
Trade payables	955,319	601,143
Social security and employee taxes	131,359	24,691
Other taxes	9,388	20,954
	1,096,066	**646,788**

The above listed payables were all unsecured.
Trade payables at 31 December 2011 included amounts owed to directors or companies controlled by directors of USD 237,810 (2010: USD Nil).

21 ACCRUED LIABILITIES

Other current liabilities at 31 December consisted of the following:

	2011 USD	2010 USD
Accruals	**1,124,194**	**774,794**

Accruals at 31 December 2011 included amounts owed to directors or companies controlled by directors of USD 220,996 (2010: USD Nil).

22 DEFERRED TAXATION

Due to the uncertainty surrounding taxation regulations and their implementation, as described in taxation note 23, there can be no accurate assessment of deferred tax assets and liabilities. The current legislation permits generally that the losses of the Kyrgyz subsidiaries and the Kyrgyz branch of Chaarat Operating Company GmbH can be carried forward and offset against future profits for a period of five years after the losses are incurred. However, the portion of the subsidiary's taxable losses disclosed in note 23 that qualify for carry-forward is subject to sufficient uncertainty such that no calculation of the potential deferred tax asset has been made.

The deferred tax relating to the acquired mining exploration assets and acquired with Geoservices KG LLC is set out below:

	2011 USD 000's	2010 USD 000's
Deferred tax assets – unused tax losses	375	348
Deferred tax liabilities – fair value gains	(835)	(835)
Net deferred tax liability	**(460)**	**(487)**

23 INCOME TAX EXPENSE

The income tax expense relates only to the Company's subsidiaries and the Kyrgyz branch of Chaarat Operating Company GmbH, the Group not being subject to corporate income tax and withholding tax in the British Virgin Islands. The Company's Swiss subsidiary, Chaarat Operating Company GmbH is subject to corporate income tax and withholding tax in Switzerland but did not incur any tax liabilities in the year.

The relationship between the expected tax expense based on the standard tax rate of 10% for the year to 31 December 2011 (2010: 10%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2011 USD 000's	2010 USD 000's
Loss per accounts	(12,368)	(11,436)
Income tax using the BVI tax rate	0%	0%
Effect of tax rates in foreign jurisdictions	(1,488)	(1,050)
Deferred tax not recognised	1,488	1,050
Current tax expense, net	-	-

Legal entities of the Kyrgyz Republic must individually report taxable income and remit profit taxes to the appropriate authorities.

With effect from 1 January 2009 a new tax code was introduced by the Kyrgyz Republic intended to clarify the complicated tax system which had been difficult to interpret and contributed to commercial uncertainty. The lack of clarity and possibility of differing opinions regarding legal interpretation amongst Government bodies could result in severe fines, penalties and interest charges for companies. While the new tax code seeks to improve the situation it is still in the implementation phase and as a result there remain tax risks in the Kyrgyz Republic substantially more significant than typically found in countries with more developed tax systems.

At the balance sheet date the Group has received no tax claims and the management believes that the Group is in compliance with the tax laws affecting its operations; however the risk remains that the relevant authorities could take differing positions with regard to interpretive issues. In these circumstances no reliable estimate has been made of taxable losses accumulated to date which may be available for offset against future profits.

As the Group's operations are at a development stage, the Group has no income tax expense for the years ended 31 December 2011 or 2010.

24 RELATED PARTY TRANSACTIONS

Key management personnel

Key management personnel who were remunerated by the Group during the periods under review were Dekel Golan, Alex Novak and Linda Naylor. Dekel Golan and Alex Novak charged for their services via entities under their control, being Mada Consulting Pte Limited and Vetan Investments Limited, respectively. Linda Naylor's remuneration was paid by Central Asia Services Limited, a company controlled by Dekel Golan and contracted to provide management services to the Group. Remuneration for key management personnel was USD 1,467,641 (2010: USD 621,102).

Expenses charged:	**2011 USD**	**2010 USD**
Mada Consulting Pte Limited (in respect of D Golan)	602,196	359,130
Vetan Investments Limited (in respect of A Novak)	504,207	230,385
Central Asia Services Limited (in respect of L Naylor's salary)	361,238	238,587
Central Asia Services Limited (for other management services)	350,706	625,016
	1,818,347	**1,453,118**
Amounts payable at 31 December	**429,266**	**122,735**

Vetan Investments Limited charged a total of USD 517,406 (2010: USD 243,585) which includes the amounts detailed above relating to the remuneration of Alex Novak.

25 COMMITMENTS AND CONTINGENCIES

Capital expenditure commitment

The Company had a commitment of USD 16,658,677 at 31 December 2011 (2010: USD 280,000) in respect of capital expenditure contracted for but not provided for in these financial statements.

Operating lease commitments

Details of operating lease commitments are set out in note 26 below.

Tax issues

The Kyrgyz Republic currently has a number of laws related to various taxes imposed by both state and regional governmental authorities that are subject to review and investigation by a number of authorities which have the right by law to impose significant fines, penalties and interest charges. These facts create tax risks in Kyrgyzstan substantially more significant than typically found in countries with more developed tax systems.

Licence agreements

There are minimum expenditure commitments under all the licence agreements. These minimum levels of investment have always been achieved.

Site restoration liability

According to Kyrgyz legislation and the licence agreements, the Kyrgyz subsidiaries are committed to restore working areas on the deposits. The restoration is only required to be made if exploration ceases on the deposit. At 31 December 2011, management deemed the cost of restoration to be immaterial.

26 ERATING LEASES

Non-cancellable operating lease liabilities of the Group relating to rental of property are as follows:

	2011 USD	2010 USD
Less than one year	17,141	70,906
Between one and two years	270,206	106,358
Between two and three years	80,939	-
	368,286	**177,264**

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks which result from its operating activities. The Group's risk management is coordinated by the executive directors, in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.
The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Categories of financial instruments

2011	Loans and receivables USD	Financial Liabilities measured at amortised cost USD
Trade and other receivables	6,521,197	-
Cash and cash equivalents	61,184,915	-
Trade and other payables	-	1,096,066
Accrued liabilities	-	1,124,194
	67,706,112	**2,220,260**

2010	USD	USD
Trade and other receivables	1,619,590	-
Cash and cash equivalents	10,124,977	-
Trade and other payables	-	646,788
Accrued liabilities	-	774,794
	11,744,567	**1,421,582**

Credit risk
The Group’s maximum exposure to credit risk, without taking into account any collateral held or other credit enhancements is USD 67,706,112 (2010: USD 11,744,567).

The Group's significant credit risks relate to cash at bank and advance payments to sub-contractors. Cash at bank is held principally at an independently 'A' rated bank. No significant cash amounts are held at banks rated less than 'B'. Cash is held either on current account or on short-term deposit at floating rates of interest determined by the relevant prevailing base rate. At 31 December 2011 USD 46.4m of deposits were also subject to cap and collar interest arrangements. The fair value of cash and cash equivalents at 31 December 2011 and 2010 did not differ materially from its carrying value. The credit risk arising from advance payments to sub-contractors is managed by close monitoring of their work.

Market risk

The Group's financial instruments affected by market risk include bank deposits, trade receivables and trade payables. The following analysis is intended to illustrate the sensitivity of the Group's financial instruments (as at year end) to changes in market variables, being exchange rates and interest rates.

The following tables show the illustrative effect on the income statement and equity that would result from possible changes in the foreign currency or interest rates which are considered reasonable given observed market volatility.

USD000's	2011 Move (%)	Income statement Profit/(loss)	Equity	2010 Move (%)	Income statement Profit/(Loss)	Equity
Fall in US interest rates	0.12	(67)	(67)	0.12	(5)	(5)
Fall in UK interest rates	0.5	(22)	(22)	0.5	(26)	(26)
Increase in US interest rates	2	1,114	1,114	2	91	91
Increase in UK interest rates	2	88	88	2	102	102
Fall in value of GBP vs USD	5	(257)	(257)	5	(246)	(246)
Increase in value of GBP vs USD	5	257	257	5	246	246
Fall in value of KGS vs USD	10	(360)	(385)	10	(41)	(53)
Increase in value of KGS vs USD	10	417	428	10	69	53

Interest rate risk

The Group holds short term bank deposits on which short term fluctuations in the interest rate receivable are to be expected.

Foreign currency risk

The Group carries out expenditure transactions substantially in US dollars, with a lesser amount in GBP pounds. Fund-raising has taken place mainly in GBP pounds. Any resulting gains or losses are recognised in the income statement.
Exchange rate exposure arises principally from the Group's holdings of cash in GBP pounds, from the Kyrgyz subsidiary's inter-company loan exposure and from the foreign currency translation risk arising on exposure to the local currency denominated net assets of the Kyrgyz operating subsidiaries.
To mitigate the Group's exposure to foreign currency risk, cash holdings are maintained to closely represent the expected short term profile of expenditure by currency. Apart from these resultant offsets, no further hedging activity is undertaken.
Foreign currency denominated financial assets and liabilities, translated into US dollars at the closing rate were as follows:

		2011 USD 000's			2010 USD 000's	
Nominal amounts	**GBP**	**KGS**	**Other**	**GBP**	**KGS**	**Other**
Financial assets	4,734	2,233	219	5,164	976	144
Financial liabilities	(410)	(901)	(436)	(244)	(448)	(310)
Short term exposure	**4,324**	**1,332**	**(217)**	**4,920**	**528**	**(166)**

Fair value of financial instruments

The fair value of the Group's financial instruments at 31 December 2011 and 2010 did not differ materially from their carrying values. The Group does not have any long term borrowings, nor does it hold any derivative financial instruments.

Liquidity risk

The Group, at its present stage of development, has no sales revenues. It therefore finances its operations through the issue of equity share capital and debt in order to ensure sufficient cash resources are maintained to meet short-term liabilities. Management monitors availability of funds in relation to forecast expenditures in order to ensure timely fundraising. Funds are raised in discrete tranches to finance activities for limited periods. Funds surplus to immediate requirements are placed in liquid, low risk investments.
The Group's ability to raise finance is partially subject to the price of gold, from which eventual sales revenues are to be derived. While the gold price has recently increased substantially, there can be no certainty as to the future price.

Political risk

Chaarat's Board is aware that the fiscal regime governing mining companies in the Kyrgyz Republic is currently under review by the newly formed government and, in the Board's opinion, is likely to change. In order to mitigate any uncertainty concerning the possible impact on the phased development of the Chaarat Project, the Company decided, as announced on 16 April 2012, to enter into direct negotiations with the government. The aim of these is to secure long term stability for the Chaarat Project by the development of a mutually agreed investment agreement, containing a "stabilisation clause", protecting the Company from changes to taxation, ownership structure and royalties. Such a commitment embodied within the agreement would require that it is ratified by the Kyrgyz Parliament. The government has confirmed its support of this approach which the Board believes is the most responsible way to ensure economic predictability. These negotiations are not concluded but the Board believes a successful outcome will be achieved.

28 POST BALANCE SHEET EVENTS

On 5 April 2012, Chaarat Malta Limited, a Maltese company, was incorporated as a subsidiary of the Company.

Directors and Advisers

DIRECTORS

Christopher Palmer-Tomkinson	Non-Executive Chairman
Dekel Golan	Chief Executive Officer
Alexander Novak	Executive
Linda Naylor	Finance
Dr Rob Weinberg	Non-Executive

COMPANY SECRETARY
Linda Naylor
c/o Central Asia Services Limited
6 Conduit Street
London W1S 2XE
T. +44 20 7499 2612
E. info@chaarat.com

REGISTERED OFFICE
Palm Grove House
PO Box 438
Road Town, Tortola
British Virgin Islands, VG1110
Registered Number 1420336

KYRGYZ REPUBLIC OFFICE
Chaarat Zaav CJSC
15th floor, Razzakova Street,
720040, Bishkek
Kyrgyz Republic

FINANCIAL PUBLIC RELATIONS
Bankside PR
6 Middle Street
London EC1A 7PH

INVESTOR RELATIONS
Smith's Corporate Advisory
One Angel Court
London EC2R 7HJ

WEBSITE
www.chaarat.com

NOMINATED ADVISER AND BROKER
Numis Securities Limited
The LSE Building
10 Paternoster Square
London EC4M 7LT

AUDITORS
PKF UK LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP

REGISTRARS
Capita Registrars (Guernsey) Ltd
Longue Hougue House
St Sampson
Guernsey GY2 4JN

DEPOSITARY
Capita IRG Trustees Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

PRINCIPAL BANKERS
Royal Bank of Scotland International
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey GY1 4BQ

SOLICITORS (UK)
Maclay Murray and Spens LLP
One London Wall
London EC2Y 5AB

Watson, Farley & Williams
15 Appold Street
London EC2A 2HB

SOLICITORS (KYRGYZ REPUBLIC)
Kalikova & Associates
71 Erkindik Boulevard
Bishkek, 720040
Kyrgyz Republic

SOLICITORS (SWITZERLAND)
Baldi & Caratsch
Zeltweg 44
Postfach 1915
8032 Zurich
Switzerland

TAX ADVISERS (SWITZERLAND)
Homburger AG
Prime Tower
Hardstrasse 201
CH-8005 Zurich
Switzerland

WWW.CHAARAT.COM