2012

CHAARAT GOLD HOLDINGS LIMITED

ANNUAL REPORT
& ACCOUNTS

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POWER LINE TO GRID SURVEYED AND DESIGNED

NEW SECTION OF ACCESS ROAD SURVEYED AND DESIGNED

RESOURCE INCREASED TO 5.76 MOZ @ 4.03 G/T

Chairman's Report

During the year under review we focused our activities on two main objectives; the move towards early production from the Tulkubash project during the second half of 2013 and the grant of a mining licence for the much larger Kiziltash section of the Chaarat deposit.

Significant progress was made towards bringing the company closer to production, both in terms of infrastructure as well as permitting sections of the development. The mining licence was indeed secured.

Earlier this year your company conducted a thorough review of the changed conditions in financial markets and in the Kyrgyz Republic. This led to a revised development strategy which we announced in early May. Arising from our strategic review we decided to bring forward the Definitive Feasibility Study of the Chaarat deposit and, as a result, we shall be able to accelerate its development.

CHAARAT DEPOSIT APPEARS TO BE ONE OF THE WORLD'S BEST UNDEVELOPED DEPOSITS

It is important to note that the modified strategy does not deviate from our originally stated objective. Our strategy has always relied on two premises; that the Chaarat deposit appears to be one of the world's best undeveloped deposits, and, that Chaarat Gold as a junior company should not attempt to develop such a large project itself. We always maintained that the Chaarat deposit warrants development with a partner having the appropriate technical and financial capability. Your company's role is to add value to the project in order to maximize its share of any potential partnership for the benefit of its shareholders.

With that in mind we prepared the Pre-Feasibility Study during 2010-11. Following upon it, we aimed to commence a small scale production on site with the view of "de-risking" the entire project. In today's markets we now believe that undertaking a definitive feasibility study of the entire project is a more effective tactic than small scale production, especially in the light of the additional working capital that would be required. Our funds are sufficient for these purposes. To raise money for working capital, by either equity subscription or debt, would in current conditions reduce value rather than add to it.

It was made public during November 2012 that of the three large Chinese gold producers, all interested in Chaarat, Shandong Gold was "awarded" the right to negotiate a deal with us by the National Reform and Development Commission of China. As mentioned in our public announcements discussions with Shandong Gold Mineral Resource were at an advanced stage when they were interrupted by a change of senior management. We have no reason to believe that the interest of these gold producers in us has vanished. Your Board remains convinced that a strategic partnership is the best option to ensure the value of Chaarat is optimised.

I am delighted to welcome Mac DeGuire to our Board. He has the credentials we have long been seeking to assist both in the supervision of the definitive feasibility study and negotiations with strategic partners.

In conclusion, I am reminded of the strength of the Chaarat investment proposition: we have a high grade, large resource which is capable of generating low cost production of gold and we are fully funded to crystallise that value. As Keynes said; "When my information changes, I alter my conclusions. What do you do, sir?" The situation changed, we modified our plans; we have the funds and the management to execute them and I wholeheartedly believe that this is the best way to deliver strongly positive returns to our shareholders.

It would be remiss of me not to thank just as wholeheartedly all the Chaarat employees for their efforts this year.

Christopher Palmer-Tomkinson
Chairman

Chaarat Deposit Mineral Resource Table March 2013

	Measured & Indicated			Inferred			Total		
	Tonnage (kt)	Grade (g/t Au)	Content (koz)	Tonnage (kt)	Grade (g/t Au)	Content (koz)	Tonnage (kt)	Grade (g/t Au)	Content (koz)
Contact Project	12,038	4.36	1,675	8,045	4.25	1,109	20,083	4.32	2,784
Main Project	7,025	4.12	932	7,532	4.32	1,045	14,557	4.22	1,977
Tulkubash Project	3,532	2.89	328	3,551	2.73	312	7,083	2.81	640
Additional bodies	536	3.56	62	2,222	4.15	297	2,758	4.04	359
	23,131	**4.05**	**2,997**	**21,350**	**4.01**	**2,763**	**44,481**	**4.03**	**5,760**

Chief Executive Officer's Report

During 2012 and early 2013, Chaarat made significant progress towards becoming a gold producer. As explained in the Chairman's Report, we have now determined that rather than moving to small scale production, the best way to add value to the Chaarat Project, for the benefit of our shareholders, is to develop a Definitive Feasibility Study (DFS) demonstrating the full value and potential of Chaarat.

A "typical" mining project life cycle follows a pattern of early stage exploration, resource identification and definition, leading to a Pre-Feasibility Study (PFS), then a Definitive Feasibility Study (DFS), development and production.

The Chaarat deposit is large (c6M ounces of gold) and high grade (c4 g/t). The PFS published in June 2011 showed that the deposit (based on drilling up to 2010 and a resource of c4Mounces) was potentially capable of supporting production of c200,000 ounces per year at a cash cost of $501 per ounce. A PFS looks at the best way to extract the resource as well as starting to examine environmental and permitting issues. The results of a PFS can often be used to determine reserves, i.e. the portion of the resource which can be shown, with a good degree of certainty, to be economically extractable. In Chaarat's case, of 2.5 million ounces, more than 1.6 million ounces were converted to reserves, with a further 0.9 million ounces of inferred resource shown as potentially mineable, supporting a potential mine life of more than 12 years.

A DFS is a more detailed study which incorporates the more detailed and comprehensive engineering, technical and economic analyses as well as social and environmental analysis of the project to such a level of accuracy and detail as to give the financing institutions, and prospective buyers, the comfort that the assumptions in the study are robust and accurate. Unlike the PFS which is based on estimates, the DFS is typically and predominantly based on actual firm quotes. After the many disappointments in the mining industry of the last two years, projects will be subject to much more rigorous scrutiny so a robust DFS will be essential to any evaluation of Chaarat.

Achievements during 2012

Our focus has been on infrastructure development; design, permitting and construction. The PFS showed that the Chaarat deposit is capable of supporting gold production of at least 2 million tonnes of ore per annum (c 200,000 ounces p.a.) and requires the appropriate infrastructure.

Work on infrastructure included:

Road – The road to site had to be upgraded from an exploration road to one capable of supporting movement of heavy trucks and delivery of supplies, equipment and materials. Two thirds of the road has been upgraded to this standard and now only requires surfacing to be completed. The final section

THE CHAARAT DEPOSIT IS LARGE

(C. 6 MILLION OUNCES)

AND HIGH GRADE

(>4 G/T)

needs to be rebuilt on a different more direct route which will reduce significantly exposure to avalanches; this section of the road has been designed and is now in the process of being permitted by the authorities.

Power – An agreement has been signed with the national electricity company to allocate a quota of 25MW to the Company. The general design parameters have been agreed and an engineering company has been retained to carry out the surveying, environmental data collection, geotechnical work and design of the line. The design has been reviewed and approved by the authorities. We have now started negotiations with the relevant bodies to secure the right of way for the line.

The total distance from the grid to Chaarat is 106 km for the first phase (which can support at least 10 MW). One of the sections of the power line, a 20 km section has been partially completed.

Re-engineering the processing strategy

Our initial processing strategy consisted of a standard Carbon in Leach (CIL) plant to process the oxidized ore of the Tulkubash deposit. We originally estimated there was enough ore for three years of processing at which time we intended to add either a flotation unit (to generate and sell concentrate) or increase the size of the plant and add an oxidation unit to oxidize the "refractory ore" which would then be treated by the same CIL unit. The general design of the plant and the more detailed engineering and tender for construction of the first phase had been completed before our decision to delay production.

We suspended investment activities for a few months during 2012 pending clarification from the Parliament on the fiscal regime to be introduced in the Kyrgyz Republic. Once the new amendments to the Tax Code, which affect the fiscal regime as well as introducing a simplified land allocation process and licensing regulations, were published we were encouraged that the government has tried to make the relationship between state and industry clearer, more predictable and transparent. However, the amendments to the Tax Code, which has now moved to a revenue based system, would have had a negative impact of $15 million before the Chaarat project became cash generative. We therefore undertook some careful value engineering to ensure we did not have to raise additional funds above the $20 million we had already identified was required for working capital.

The solution was provided by the results of metallurgical work carried out whilst completing the design and adaptation to local standards of a mill to process up to 2,500 tpd of ore and carrying out a tender to Engineer, Procure and Construct (EPC) the plant. We learnt that the first phase of production did not have to include the whole CIL plant but that a small heap leach operation was sufficient to process most of the oxidized material.

Gold recovery would have been reduced but the ability to process material with a lower cutoff grade meant that the same amount of gold would be produced. The capital costs of building the heap leach plant as well as the operating cost of production were also lower than our original estimates. The fall in the price of gold had made this result even more important.

Accordingly we retained an engineering company to design the heap leach facility. The design took into account the full scale plant, so that each element will be located in its appropriate final location without obstructing the future development of the whole plant. The basic design was completed in March 2013.

Design and permitting of mining waste dumps

The topography of the Sandalash river valley, where the mine will be located, is very challenging. The valley is narrow and the storage of mining waste is therefore also a challenge. We have been working with a Local Design Institute (as licenced engineering companies are called in the Kyrgyz Republic), to identify a location near the mine and secure permission to use this location for waste. This location will be sufficient for waste storage from early production and we are confident that we can increase the waste storage capacity as needed.

Environmental and social impact analysis and mitigation

The Company has voluntarily decided to comply with current best practice. In order to ensure we design the systems and procedures to meet the required standards the Company has retained the services of AMEC.

Following a visit to site by a number of AMEC specialists we have been able to identify the gaps in our preparedness and to initiate a process ensuring that we will be compliant with all relevant principles throughout our activity in the region. No major issues were identified. A dedicated professional team has been recruited and mandated to ensure we continue to maintain and build on our high standard of operations and improve their documentation.

Modest exploration effort but resource continues to grow

In preparation for production, our exploration team focused on infill drilling of the Tulkubash project in 2012 with some step out work to increase the open pit potential of the deposit. A total of 10,700 metres was drilled which effectively converted the open pit section of the deposit to resource in the measured category. The total measured, indicated and inferred resource was increased to 5.76Moz at a grade of 4.03 g/t.

Plans for 2013

The Company's strategy has been amended to reflect the new realities of the market and the country of operation. Your board and management believe, as explained by the Chairman, that it is better to develop a robust DFS for the whole project rather than move to small scale production and prepare a DFS at a later stage. We believe that preparing this study now will enable us to reach full scale, larger production, earlier and with less risk and dilution to our shareholders.

The management team, led by David McNee the General Director of our local subsidiary, is focusing now on collecting information for the DFS. This will include a 13,000 metre drilling campaign, more geotechnical work and much more metallurgical work to ensure we have the best solution for the deposit as a whole. We will appoint a consultant to supervise the DFS in Q3 2013 and expect the DFS to be completed in Q3 2014. We will keep the market updated on our progress.

We will continue and expand our work in the community which is described in our Social Responsibility Report and in particular the establishment of the Community Consultation Group is an exciting development.

We also intend to continue to design and secure permitting for parts of the project so that the work on the development of the project can continue without delay as soon as we have secured Project Finance. A number of strategic partners have already expressed an interest in participating in this lucrative project, which we consider the best way to achieve the optimal development of the Chaarat Project.

Our funding position

The registration of our resource with the government to obtain a mining licence over the whole deposit led to an unbudgeted payment of tax of $6 million. We have continued to develop the infrastructure as outlined in this report and more than 50% of our expenditure since our fund raising in 2011 has been capitalised for the Tulkubash project. We have continued exploration of our other projects as well as the Kiziltash portion of the Chaarat deposit. We continue to seek partners for the Chontash and Mironovskoye projects (where we also obtained a mining licence).

The Company is financed to cover the costs of the drilling campaign, the DFS and overheads, as well as an active community engagement programme, for two years from the date of this report.

In conclusion I would like to remind our loyal shareholders that Chaarat remains an exceptional value proposition. I appreciate your patience while we realise the potential of that proposition.

Dekel Golan
Chief Executive Officer

Social Responsibility Report

Through its support of Chatkal Ordo during 2012 Chaarat has demonstrated its commitment to supporting the development of the communities surrounding the Chaarat deposit.

Education

The Chaarat scholarship programme continues to support students graduating from high school committed to studying geology and mining engineering at university. A scholarship covers living expenses and tuition fees. During the summer holiday students are offered a trainee position with the Company on full pay. In 2012, 14 students from Chatkal worked at the Chaarat mine site.

The achievements of the students are monitored and only those meeting good academic criteria continue to be supported. The programme provides a strong incentive for the students to maintain high scores and good performance. 12 students are currently on scholarships.

Sports hall

Wrestling and volley ball are popular sports and we were requested to build a modern sports hall to encourage participation. Designs were prepared in consultation with the local community and permits recently secured. Construction is planned to start in July 2013 and we hope that the first Chatkal wrestling team will soon bring a medal to the valley.

Employment

As a result of the workshops organised by Chatkal Ordo to assist in the revival of the art of making shyrdaks (felt rugs) in the Chatkal valley, one of the entrepreneurs has taken the initiative to form a cooperative. She opened a small shop in Bishkek (the capital of the Kyrgyz Republic) to sell the products made by local women. We financed the working capital of the cooperative for the purchase of materials. The loans have been repaid and the business seems to be thriving.

We are also committed to recruit and train local residents for mining operations. 67 locals were employed by the Chaarat group last year during the height of the season.

Infrastructure development

The road running along the Chatkal valley serves as the main communication artery between Kanysh Kya, the regional centre, and the rest of the valley. This road has deteriorated significantly and little effort has been made to maintain it. The intention of the mining companies operating in the region is to gradually upgrade and improve the road throughout its length. This exercise cannot be completed in a single year, especially when most companies are exploration companies with no income.

Chaarat upgraded a long stretch of the road in 2012 (at a cost of approximately USD 200,000) and will continue with the work this year.

Winter support

The shortage of capital in the region means people are not able to buy and store food needed for the winter. Shortage of supply means that food is sold at exorbitantly high prices in the Chatkal region during the winter. During the last two winters Chaarat has operated a programme of providing flour at market price to the residents thus enabling the locals to avoid having to pay high prices for staple foods. Very little subsidy is involved (we absorbed the cost of transport) but this effort improves the life of the local communities.

Livestock which is one of the main activities in the region suffers from the same problem of the inability to secure of hay supplies sufficient for the whole winter. Chaarat also assisted with the delivery of hay.

In addition to the ongoing projects Chaarat receives numerous smaller requests for aid which are assessed and often supported by our regional representative. These include the purchase of books for schools, assistance in the management of the Besh Aral nature reserve, upkeep of an irrigation channel and other similar activities.

Planned Activities for 2013

As well as the construction of the sports hall and continuing support for rehabilitation of the Chatkal road, Chaarat this year has proposed the establishment of a formal Community Consultation Group, through which the Company's future development plans can be introduced to the community, and the community concerns can be brought forward for discussion.

Chaarat intends to arrange a tour of suitable mining operations in the region, for a number of community representatives, to demonstrate the environmental controls that modern mining companies adopt to manage risk within their operations. We believe that this greater understanding of mining activities will lead to greater confidence within the community that our development plans are reasonable and can be managed to limit environmental impact.

The Company will initiate a full IFC compliant Environmental and Social Impact Assessment (ESIA) in 2013, to support the planned DFS.

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 focusing on the resource sector. Christopher is also a former director of Highland Gold Mining Limited.

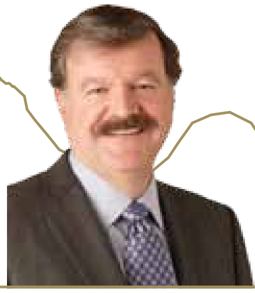
He is a member of Chaarat's Audit and Remuneration Committees..

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 those activities 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.

Alexander Novak
(Executive Director)

Alex Novak is a graduate of the Kazakh Polytechnic Institute (M.Sc). He has assisted companies investing in the Kyrgz Republic in various aspects of finance, administration and representation with the authorities since 2000. 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 through to 1990, Mr Novak held several positions at numerous construction companies in Kazakhstan. 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.



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.

Dr Robert Weinberg MA, DPhil, FGS, FIMMM
(Non-Executive Director)

Rob Weinberg gained his doctorate in geology from Oxford University and has more than 35 years of international mining industry experience. A Fellow of both the Geological Society of London and the Institute of Materials, Minerals and Mining, he is an independent mining research analyst and consultant and holds non executive director positions at three other AIM, LSE and ASX listed companies.

Rob was Managing Director of 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 Chairman of Chaarat's Audit and the Remuneration Committees.

Marcel DeGuire
(Non-Executive Director)

Mac's career in the international mining industry spans more than 40 years. In 2006 as senior vice president of Apex Silver Mines he initiated the sale of a share of the San Cristobal project to Sumitomo Corporation of Japan for $500m, having managed the pre-feasibility and definitive feasibility studies and the development plan for the project.

During his twenty years at Newmont Mining he managed the project development and initial operations of Newmont's $225m Zarafshan gold heap leach project in Uzbekistan, his responsibilities included negotiation of the joint venture agreement, development of the process flow sheet and commissioning and start-up of mining operations.

A qualified metallurgist, Mac has worked extensively with refractory gold ore types and has developed new processing techniques which have subsequently been commercially implemented. He has also worked on the management of environmental matters, including minimising liabilities, ensuring legal and regulatory compliance and permitting procedures.

Most recently Mac has worked as President and Chief Operating Officer of Guyana Goldfields, a company engaged in the development and construction of a combined open pit and underground gold mine in Guyana.

ACCOUNTS 2012

Directors' Report

The Directors present their report and audited financial statements for the year ended 31 December 2012.

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 (2011: nil). The loss for the year of USD 11,489,788 (2011: USD 12,368,049) has been taken to reserves.

Share Capital and Substantial Share Interests

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

On 22 May 2013, 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	17,372,501	6.94
D Golan via Mada Limited	14,620,755	5.84
BlackRock	12,850,000	5.13
Alex Novak via Vetan Investments Limited	10,975,358	4.38
UBS as principal	9,921,187	3.96
Baker Steel Capital Managers	9,312,950	3.72
Wilshire-Fasanara Credit Strategies SP Fund	7,888,321	3.15
Gary Mellon	7,759,679	3.10

Directors

The Directors who served during the year were:

C Palmer-Tomkinson
D Golan
A Novak
L Naylor
Dr R Weinberg

On 8 May 2013 Marcel DeGuire was appointed a director.

In accordance with the Company's Articles of Association the directors who have been longest in office since their last election must retire by rotation at the Annual General Meeting, and may stand for re-appointment at the Meeting. Accordingly, the director retiring by rotation, Dr R Weinberg, being eligible, offers himself for re-appointment.

Directors' Interests

Share Interests

The directors of the Company who held office at 31 December 2012 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 31 May 2013:

	Number of Shares	Number of Options over Shares
C Palmer-Tomkinson	6,100,000	680,914
Dr R Weinberg	60,000	253,704
D Golan	14,620,755	5,809,331
A Novak	10,975,358	3,632,124
L Naylor	728,000	2,029,244
	32,484,113	**12,405,317**

The following executive Directors have options to subscribe for ordinary shares in the Company as follows:

		At 31 December 2012			At 31 December 2011		
Price	Exercise period	Dekel Golan	Alex Novak	Linda Naylor	Dekel Golan	Alex Novak	Linda Naylor
USD0.9166	08/11/07 – 16/10/17	2,400,000	1,500,000	-	2,400,000	1,500,000	-
25p	01/09/12 – 31/08/17	400,000	252,000	156,000	400,000	252,000	156,000
41p	25/02/11 – 24/02/18	162,602	102,439	105,691	162,602	102,439	105,691
41p	25/02/12 – 24/02/18	162,602	102,439	105,691	162,602	102,439	105,691
41p	25/02/13 – 24/02/18	162,602	102,439	105,691	162,602	102,439	105,691
61p	22/12/11 – 21/12/18	109,289	68,852	71,039	109,289	68,852	71,039
61p	22/12/12 – 21/12/18	109,289	68,852	71,039	109,289	68,852	71,039
61p	22/12/13 – 21/12/18	109,290	68,852	71,038	109,290	68,852	71,038
27p	22/12/12 – 21/12/19	302,469	166,667	185,185	302,469	166,667	185,185
27p	22/12/13 – 21/12/19	302,469	166,667	185,185	302,469	166,667	185,185
27p	22/12/14 – 21/12/19	302,469	166,667	185,185	302,469	166,667	185,185
25p	31/12/13 – 30/12/20	428,750	288,750	262,500	-	-	-
25p	31/12/14 – 30/12/20	428,750	288,750	262,500	-	-	-
25p	31/12/15 – 30/12/20	428,750	288,750	262,500	-	-	-
Total		**5,809,331**	**3,632,124**	**2,029,244**	**4,523,081**	**2,765,874**	**1,241,744**

The non-executive Directors have options to subscribe for ordinary shares in the Company as follows:

		At 31 December 2012		At 31 December 2011	
Price	Exercise period	Christopher Palmer-Tomkinson	Rob Weinberg	Christopher Palmer-Tomkinson	Rob Weinberg
USD 0.9166	08/11/07 – 16/10/17	300,000	-	300,000	-
25p	01/09/12 – 31/08/17	26,000	-	26,000	-
41p	25/02/11 – 24/02/18	18,699	-	18,699	-
41p	25/02/12 – 24/02/18	18,699	-	18,699	-
41p	25/02/13 – 24/02/18	18,699	-	18,699	-
61p	22/12/11 – 21/12/18	12,569	-	12,569	-
61p	22/12/12 – 21/12/18	12,569	-	12,569	-
61p	22/12/13 – 21/12/18	12,568	-	12,568	-
27p	22/12/12 – 21/12/19	37,037	34,568	37,037	34,568
27p	22/12/13 – 21/12/19	37,037	34,568	37,037	34,568
27p	22/12/14 – 21/12/19	37,037	34,568	37,037	34,568
25p	31/12/13 – 30/12/20	50,000	50,000	-	-
25p	31/12/14 – 30/12/20	50,000	50,000	-	-
25p	31/12/15 – 30/12/20	50,000	50,000	-	-
Total		**680,914**	**253,704**	**530,914**	**103,704**

Corporate Governance

Chaarat is committed to conducting all business in an honest and ethical manner with a zero tolerance approach to bribery and corruption both internally and externally. All business dealings and relationships are to be undertaken professionally, fairly and with integrity and effective systems implemented and enforced to counter bribery.

The Board is committed to maintaining high standards of corporate governance. The Listing Rules of the Financial Conduct 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 Senior non-executive Director 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 Dr 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 audit, 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.

Relations with shareholders

The Board recognises the importance of maintaining a dialogue with its shareholders and values the views expressed. Members of the Board meet with shareholders, analysts and other institutions throughout the year to keep them updated. The AGM and website encourage institutional and private investors to engage with the Board

Going concern

In May 2013 the Board announced a revised development strategy for the Chaarat project which now involves the completion of a Definitive Feasibility Study. This change in strategy removes the requirement to raise funding for working capital, which had previously been identified, if a strategy of reaching small scale production was pursued.

Accordingly, the Board has reviewed the revised budgets and cash flow forecasts, which have been prepared following the change in strategy, and include an element of discretionary expenditure. At 31 December 2012, the Group had cash and cash equivalents of USD 36.9 million and no borrowings and the Board is satisfied that it has sufficient funds to complete the Definitive Feasibility Study and 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.

Project funding requirements

After completion of the Definitive Feasibility Study in 2014, further funding will be required to complete the mine development project which has been in progress since 2012. If this funding cannot be secured the carrying value of the mine development costs and related plant and equipment, which at 31 December 2012 amounted to approximately $25 million, may become impaired.

Directors' responsibilities

The directors are responsible for preparing the financial statements and have 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. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.
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.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the British Virgin Islands governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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

PKF (UK) LLP have merged their business into BDO LLP and accordingly have signed their auditor's report in the name of the merged firm. A resolution to appoint BDO LLP as auditors of the company will be put to the next Annual General Meeting.

L Naylor

Linda Naylor
Company Secretary
21 June 2013

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 2012 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 the preparation of the financial statements 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 auditors

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 2012 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 Chaarat 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 the mine development costs and related plant and equipment, which at 31 December 2012 amounted to approximately $25 million, may become impaired .

BDO LLP

BDO LLP
Chartered Accountants
London
United Kingdom
21 June 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement

For the years ended 31 December

	Note	2012 USD	2011 USD
Exploration expenses		(6,301,714)	(5,984,284)
Administrative expenses		(5,905,089)	(5,278,133)
Administrative expenses- Share options expense		(588,514)	(1,590,898)
Administrative expenses- Foreign exchange gain/(loss)		229,581	(331,856)
Total administrative expenses		(6,264,022)	(7,200,887)
Other operating income		345,862	97,254
Operating loss	3	(12,219,874)	(13,087,917)
Financial income	7	730,086	719,868
Taxation	23	-	-
Loss for the year, attributable to equity shareholders of the parent		**(11,489,788)**	**(12,368,049)**
Loss per share (basic and diluted) – USD cents	19	(4.59)c	(5.31)c

Consolidated Statement Of Comprehensive Income

For the years ended 31 December

	2012 USD	2011 USD
Loss for the year, attributable to equity shareholders of the parent	**(11,489,788)**	**(12,368,049)**
Other comprehensive income:		
Exchange differences on translating foreign operations and investments	(918,873)	13,154
Other comprehensive income for the year, net of tax	**(918,873)**	**13,154**
Total comprehensive income for the year attributable to equity shareholders of the parent	**(12,408,661)**	**(12,354,895)**

Consolidated Balance Sheet

At 31 December

	Note	2012 USD	2011 USD
Assets			
Non-current assets			
Intangible assets	8	129,740	34,297
Mining exploration assets	9	8,349,367	8,349,367
Mine properties	10	8,400,984	3,949,756
Property, plant and equipment	11	4,685,330	2,134,419
Assets in construction	12	15,598,101	6,510,020
Other receivables	13	-	1,543,050
		37,163,522	**22,520,909**
Current assets			
Inventories	14	2,783,323	1,328,367
Trade and other receivables	15	3,143,397	6,521,197
Cash and cash equivalents	16	36,944,060	61,184,915
		42,870,780	69,034,479
Total assets		**80,034,302**	**91,555,388**
Equity and liabilities			
Equity attributable to shareholders			
Share capital	17	2,504,778	2,504,778
Share premium	17	128,551,662	128,551,662
Other reserves		14,618,604	14,308,874
Translation reserve		(1,989,053)	(1,070,180)
Accumulated losses		(66,631,199)	(55,420,195)
Total equity		**77,054,792**	**88,874,939**
Non-current liabilities			
Deferred tax	22	472,620	460,189
		472,620	**460,189**
Current liabilities			
Trade and other payables	20	754,951	1,096,066
Accrued liabilities	21	1,751,939	1,124,194
		2,506,890	2,220,260
Total liabilities		**2,979,510**	**2,680,449**
Total liabilities and equity		**80 034 302**	**91,555,388**

The financial statements were approved and authorised for issue by the Board of Directors on 21 June 2013.

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 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		**2,504,778**	**128,551,662**	**(55,420,195)**	**14,308,874**	**(1,070,180)**	**88,874,939**
Currency translation		-	-	-	-	(918,873)	(918,873)
Other comprehensive income		**-**	**-**	**-**	**-**	**(918,873)**	**(918,873)**
Loss for the year ended 31 December 2012		-	-	(11,489,788)	-	-	(11,489,788)
Total comprehensive income for the year		**-**	**-**	**(11,489,788)**	**-**	**(918,873)**	**(12,408,661)**
Share options lapsed		-	-	278,784	(278,784)	-	-
Share options expense		-	-	-	588,514	-	**588,514**
Balance at 31 December 2012	**17 (b)**	**2,504,778**	**128,551,662**	**(66,631,199)**	**14,618,604**	**(1,989,053)**	**77,054,792**

Consolidated Cash Flow Statement

For the Years Ended 31 December

	Note	2012 USD	2011 USD
Operating activities			
Loss for the year		**(11,489,788)**	**(12,368,049)**
Adjustments:			
Amortisation expense - intangible assets	8	53,372	18,545
Depreciation expense - property, plant and equipment	11	902,531	576,871
(Profit) on disposal of property, plant and equipment	3	(359,991)	(97,254)
Finance income	7	(730,086)	(719,868)
Share based payments	3	588,514	1,590,898
(Gains)/Loss on foreign exchange		(229,581)	329,805
(Increase) in inventories		(1,454,957)	(942,364)
Decrease/(Increase) in accounts receivable		4,920,850	(6,359,430)
Increase in accounts payable		299,059	24,337
Net cash flow used in operations		**(7,500,077)**	**(17,946,509)**
Investing activities			
Purchase of computer software	8	(138,354)	(34,086)
Purchase of tangible assets		(17,060,389)	(12,156,715)
Acquisition of subsidiary (net of cash acquired)	18	-	(143,847)
Proceeds from sale of equipment		-	293,263
Interest received	7	730,086	719,868
Net cash used in investing activities		**(16,468,657)**	**(11,321,517)**
Financing activities			
Proceeds from issue of share capital	17	-	84,070,775
Issue costs	17	-	(3,434,266)
Net cash from financing activities		-	**80,636,509**
Net change in cash and cash equivalents		**(23,968,734)**	**51,368,483**
Cash and cash equivalents at beginning of the year		**61,184,915**	**10,124,977**
Effect of changes in foreign exchange rates		(272,121)	(308,545)
Cash and cash equivalents at end of the year	**16**	**36,944,060**	**61,184,915**

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 with ticker symbol CGH.

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: 14th 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 company
Chaarat Malta Limited	Malta	Services 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.

- 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 was 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 2012.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published that are mandatory for forthcoming financial periods, but which the Group has not adopted early. Those which are considered relevant to the Group's operations are as follows:

- IAS 16 "Property, Plant and Equipment" – With effect from 1 January 2013 this standard has been amended to clarify the circumstances when spare parts are classified as plant and equipment rather than inventories. The effect of this amendment will be that more items will meet the definition of plant and equipment and will be classified within non-current assets.

Other standards issued but not yet effective are not expected to have a material impact on the financial statements.

GOING CONCERN

In May 2013 the Board announced a revised development strategy for the Chaarat project which now involves the completion of a Definitive Feasibility Study. This change in strategy removes the requirement to raise funding for working capital, which had previously been identified, if a strategy of reaching small scale production was pursued.

Accordingly, the Board has reviewed the revised budgets and cash flow forecasts, which have been prepared following the change in strategy, and include an element of discretionary expenditure. At 31 December 2012, the Group had cash and cash equivalents of USD 36.9 million and no borrowings and the Board is satisfied that it has sufficient funds to complete the Definitive Feasibility Study and 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.

PROJECT FUNDING REQUIREMENTS

After completion of the Definitive Feasibility Study in 2014, further funding will be required to complete the mine development project which has been in progress since 2012. If this funding cannot be secured the carrying value of the mine development costs and related plant and equipment , which at 31 December 2012 amounted to approximately $25 million, may become impaired.

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 acquisition 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 optimizes 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 to 10 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 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 realizable value. Cost is calculated using the average cost method. Net realizable 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:

	2012	2011	2010
Kyrgyz Som (KGS) to 1 US dollar (USD)	47.4012	46.4847	47.0992
Kyrgyz Som (KGS) to 1 UK pound (GBP)	76.2998	71.6585	72.6077
US dollar (USD) to 1 UK pound (GBP)	1.6097	1.5416	1.5416

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:

	2012 USD	2011 USD
Depreciation of property, plant and equipment	902,531	576,871
Amortisation of intangible assets	53,372	18,545
Operating lease expenses	471,623	430,125
Share based payment charges	588,514	1,590,898
(Profit) on sale of fixed assets	(359,991)	(97,254)
(Gain)/Loss on foreign exchange	(229,581)	331,856
Auditor's remuneration - all services	75,535	90,491
Acquisition related costs	-	6,422

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 37,163,522 (2011: USD 22,520,909).

5 STAFF NUMBERS AND COSTS

	Number	Number
Management and administration	136	57
Operations	335	79
	471	**136**

The aggregate payroll costs of these persons were as follows:

	2012 USD	2011 USD
Staff wages and salaries	4,977,645	2,636,024
Social security and other pension costs	609,148	169,447
Employee share based payment charges	305,907	1,151,869
Directors remuneration as detailed in note 6		
Wages and salaries	1,142,928	1,620,673
Share based payment charge	282,607	439,029
	7,318,235	**6,017,042**

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 in the related parties note 24, rather than directly as short-term employment costs.

Wages and salaries (including bonus)	**2012 USD**	**2011 USD**
Paid directly	94,519	51,950
Paid via related party consultancy companies (including expenses)	1,048,409	1,568,723
Share based payment charge	282,607	439,029
Total	**1,425,535**	**2,059,702**

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

Details of individual directors' remuneration are shown below:

2012 USD	Salary	Bonus	Pension	Share based payment	Total
Dekel Golan	408,781	-	-	116,683	525,464
Alex Novak	236,678	-	-	68,585	305,263
Linda Naylor	249,654	-	24,965	71,951	346,570
Christopher Palmer- Tomkinson	47,646	-	-	13,588	61,234
Rob Weinberg	46,873	-	-	7,636	46,873
Retired directors	-	-	-	4,164	11,800
Total	**989,632**	**-**	**24,965**	**282,607**	**1,297,204**

2011 USD	Salary	Bonus	Pension	Share based payment	Total
Dekel Golan	399,927	202,269	-	162,504	764,700
Alex Novak	178,003	105,075	-	102,256	385,334
Linda Naylor	245,318	92,736	23,184	103,191	464,429
Christopher Palmer- Tomkinson	42,744	-	-	18,242	60,986
Rob Weinberg	41,364	-	-	-	41,364
Oliver Greene	9,207	-	-	9,178	18,385
Luo Tao	29,859	-	-	21,829	51,688
David Tang	29,859	-	-	21,829	51,688
Total	**976,281**	**400,080**	**23,184**	**439,029**	**1,838,574**

7 FINANCE INCOME

	2012 USD	2011 USD
Interest on cash and cash equivalents	705,955	706,900
Loan interest receivable	-	1,380
Other income	24,131	11,588
	730,086	**719,868**

8 INTANGIBLE ASSETS - COMPUTER SOFTWARE

Cost	USD
At 31 December 2010	**78,836**
Additions	34,086
Exchange differences	(715)
At 31 December 2011	**112,207**
Additions	138,354
Exchange differences	-
At 31 December 2012	**250,561**

Amortisation	USD
At 31 December 2010	**58,754**
Charge for the year	18,545
Exchange differences	611
At 31 December 2011	**77,910**
Charge for the year	53,372
Exchange differences	(10,461)
At 31 December 2012	**120,821**

Carrying amounts	USD
At 31 December 2012	**129,740**
At 31 December 2011	**34,297**
At 31 December 2010	**20,082**

9 INTANGIBLE ASSETS – ACQUIRED MINING EXPLORATION ASSETS

	Chontash USD	Mironovskoye USD	Kyzil Ompul USD	Total USD
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**
At 31 December 2012	**4,592,152**	**2,504,810**	**1,252,405**	**8,349,367**
Carrying amounts				
At 31 December 2012	**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**
At 31 December 2010	**4,592,152**	**2,504,810**	**1,252,405**	**8,349,367**

10 MINE PROPERTIES

	USD
At 31 December 2010	-
Development cost capitalised	3,949,756
At 31 December 2011	**3,949,756**
Development cost capitalised	4,554,043
Exchange differences	(102,815)
At 31 December 2012	**8,400,984**
Carrying amounts	
At 31 December 2012	**8,400,984**
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 improve-ments USD	Total USD
Cost							
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**
Additions	180,513	1,720,785	99,561	55,523	1,460,624	4,073	3,521,079
Disposals	-	-	(1,237)	-	(5,279)	-	(6,516)
Exchange differences	(8,038)	(48,543)	(3,687)	(1,541)	(16,583)	(1,133)	(79,525)
At 31 December 2012	**547,067**	**4,026,567**	**286,414**	**115,942**	**1,873,132**	**62,696**	**6,911,818**
Depreciation							
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**
Charge for the year	85,430	617,139	54,861	25,451	97,134	22,516	902,531
Disposals	-	-	(912)	-	(1,981)	-	(2,893)
Exchange differences	(1,604)	(9,307)	(1,557)	(632)	(1,975)	(436)	(15,511)
At 31 December 2012	**213,393**	**1,516,483**	**157,790**	**51,682**	**252,996**	**34,144**	**2,226,488**
Net book value							
At 31 December 2012	**333,674**	**2,510,084**	**128,624**	**64,260**	**1,620,136**	**28,552**	**4,685,330**
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**

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**
Additions	9,171,435
Exchange differences	(83,354)
At 31 December 2012	**15,598,101**
Carrying amounts	
At 31 December 2012	**15,598,101**
At 31 December 2011	6,510,020
At 31 December 2010	-

13 OTHER RECEIVABLES LONG TERM RECEIVABLES

	2012 USD	2011 USD
Balance at 31 December	4,611,833	3,474,762
Less provision	(1,943,740)	(1,931,712)
Capitalised VAT	(2,668,093)	-
VAT recoverable amount	-	1,543,050

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 2012 and 31 December 2011 due to uncertainty regarding the timing of recovery. Chaarat Operating Company GmbH (Kyrgyz branch) has capitalised the VAT which is no longer regarded as recoverable.

14 INVENTORIES

	2012 USD	2011 USD
Equipment spares and consumables	2,783,323	1,328,367

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

	2012 USD	2011 USD
Advance payments to sub-contractors	2,824,260	6,257,572
Reserve for advance payments to sub-contractors	-	(3,294)
Loans to sub-contractors	192,650	192,927
Other receivables	126,487	73,992
	3,143,397	**6,521,197**

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.

16 CASH AND CASH EQUIVALENTS

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

	2012 USD	2011 USD
Cash		
Cash in hand	40,863	39,548
Cash Equivalents		
Short-term deposits held in Guernsey	33,611,752	60,073,511
Short-term deposits held in Switzerland	11,728	21,049
Short-term deposits held in the Kyrgyz Republic	3,279,717	1,050,807
	36,944,060	**61,184,915**

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 2011 and 2012	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
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 and 2012	**250,477,868**	**2,504,778**	**128,551,662**	**131,056,440**

c. Potential issue of ordinary shares

Share options

At 31 December 2012 the Company had options of 17,798,785 (2011: 14,368,711) outstanding for the issue of ordinary shares as follows:

Share Options held at 31 December 2012	Option Price	Exercise Period
300,000	US$ 1.0633	16/10/07 to 16/10/15
180,000	£ 0.54	01/07/08 to 01/07/16
5,100,000	US$ 0.9166	08/11/08 to 16/10/17
180,000	£ 0.54	30/06/09 to 30/06/16
100,000	US$ 1.0633	01/09/09 to 02/11/16
200,000	US$ 1.0633	01/09/09 to 01/07/17
237,250	£ 0.54	08/08/12 to 08/08/17
122,759	£ 0.25	08/08/12 to 08/08/17
935,227	£ 0.25	01/09/12 to 01/09/17
1,557,613	£0.41	25/02/11 to 25/02/18
1,108,440	£0.61	22/12/11 to 22/12/18
2,807,187	£0.27	22/12/12 to 22/12/19
4,970,309	£0.25	31/12/13 to 31/12/20
17,798,785		

All options are share settled.

	2012		2011	
	Options	Weighted average exercise price (US$)	Options	Weighted average exercise price (US$)
Outstanding at 1 January	14,368,711	0.732	11,125,253	0.921
Granted during the year	4,970,309	0.404	15,072,557	1.441
Exercised during the year	-	-	153,500	0.401
Forfeited during the year	(1,540,235)	0.810	(11,675,599)	1.694
Outstanding at 31 December	17,798,785	0.682	14,368,711	0.732
Exercisable at 31 December	10,088,826	0.803	6,899,281	0.952

The share options outstanding at 31 December 2012 had a weighted average exercise price of USD 0.682 and a weighted average remaining contractual life of 5.5 years.

Fair value assumptions for share option charges

The fair value of options granted on 22 December 2012 has been assessed by using the Black-Scholes Option Valuation Model, using the following inputs:

Share price when issued	**USD 0.315**
Exercise prices	**USD 0.404**
Expected volatility	**64.63%**
Expected life	**years 3.5**
Risk free rate (US Federal Funds Rate)	**0.12%**
Expected dividends	**Nil**
Average fair value per option	**USD 0.1236**

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 588,514 (2011: USD1, 590,898) 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 net assets acquired was USD 214,195 being the net of USD 988,213 of assets and USD 774,338 of 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
Receivables	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

19 LOSS PER SHARE

Loss per share is calculated by reference to the loss for the year of USD 11,489,788 (2011: USD 12,368,049) and the weighted number of shares in issue during the year of 250,477,868 (2011: 232,963,591)
There is no dilutive effect of share options.

20 TRADE AND OTHER PAYABLES

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

	2012 USD	2011 USD
Trade payables	650,657	955,319
Social security and employee taxes	93,251	131,359
Other taxes	11,043	9,388
	754,951	**1,096,066**

The above listed payables were all unsecured.

Trade payables at 31 December 2012 included amounts owed to directors or companies controlled by directors of USD 21,692 (2011: USD 237,810).

21 ACCRUED LIABILITIES

Other current liabilities at 31 December consisted of the following:

	2012 USD	2011 USD
Accruals	**1,751,939**	**1,124,194**

Accruals at 31 December 2011 included USD 220,996 owed to directors or companies controlled by directors. At 31 December 2012 there were no amounts owed to directors or companies controlled by directors.

22 DEFERRED TAXATION

As described in taxation note 23 below, with effect from 1 January 2013 there has been a move to a revenue based tax system for gold production in the Kyrgyz Republic. Management therefore consider that the accumulated income tax losses arising from operations in the Kyrgyz Republic will only be able to be utilised in limited circumstances such as the offset against certain fixed asset related profits.

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

	2012 USD 000's	2011 USD 000's
Deferred tax assets – unused tax losses	362	375
Deferred tax liabilities – fair value gains	(835)	(835)
Net deferred tax liability	**(473)**	**(460)**

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 2012 (2011:10%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2012 USD 000's	2011 USD 000's
Loss per accounts	(11,490)	(12,368)
Income tax using the BVI tax rate	0	0
Effect of tax rates in foreign jurisdictions	(1,547)	(1,488)
Deferred tax not recognised	1,547	1,488
Total 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 2013 the tax code for the Kyrgyz Republic has been amended for gold mining companies engaged in the production and sale of gold. Under these revised arrangements the Group's Kyrgyz gold mining operations will pay a revenue based tax on the sales of gold. The percentage rate of tax will be based on the average monthly international gold price, being 0% if the gold price is below $1,200 per ounce and up to 20% when the gold price exceeds $2,501 per ounce.

Because of this change in the tax regime management consider that the opportunities to utilise income tax losses accumulated by the Group in the Kyrgyz Republic will in future periods be limited to circumstances such as the offset against certain fixed asset profits that may arise in the country.

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.

As the Group's operations are at a development stage, the Group has no income tax expense for the years ended 31 December 2012 or 2011.

24 RELATED PARTY TRANSACTIONS

Key management personnel

Key management personnel are defined to be the directors and details of their remuneration are disclosed in note 6. The directors 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 1,048,408 (2011: USD 1,467,641).

	2012 USD	2011 USD
Expenses charged:		
Mada Consulting Pte Limited (in respect of D Golan)	408,781	602,196
Vetan Investments Limited (in respect of A Novak)	365,009	504,207
Central Asia Services Limited (in respect of L Naylor's salary)	274,619	361,238
Central Asia Services Limited (for other management services)	687,337	350,706
	1,735,746	**1,818,347**
Amounts payable at 31 December	**21,692**	**429,266**

Vetan Investments Limited charged a total of USD 378,209 (2011: USD 517,406) 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 3,241,916 at 31 December 2012 (2011: USD 16,658,677) 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.

Licence retention fee commitments
The Company has calculated a commitment of USD 126,395 at 31 December 2012 (2011: nil) in respect of licence retention fee but not provided in these financial statements. The amount to be paid will be determined by the Kyrgyz authorities and is not payable until a demand for payment is received by the Company. No demand had been received at the date of these financial statements.

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 the Kyrgyz Republic 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 2012, management deemed the cost of restoration to be immaterial.

26 OPERATING LEASES

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

	2012 USD	**2011 USD**
Less than one year	83,284	17,141
Between one and two years	42,470	270,206
Between two and three years	1,847	80,939
	127,601	**368,286**

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

2012	Loans and receivables USD	Financial Liabilities measured at amortised cost USD
Trade and other receivables	319,137	-
Cash and cash equivalents	36,944,060	-
Trade and other payables	-	650,657
Accrued liabilities	-	1,751,939
	37,263,197	**2,402,596**

2011	USD	USD
Trade and other receivables	263,625	-
Cash and cash equivalents	61,184,915	-
Trade and other payables	-	955,319
Accrued liabilities	-	1,124,194
	61,448,540	**2,079,513**

Credit risk
The Group's maximum exposure to credit risk, without taking into account any collateral held or other credit enhancements is USD 37,263,197 (2011: USD 61,448,540).

The Group's significant credit risks relate to cash at bank. 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 2012 USD 14m of deposits were also subject to cap and collar interest arrangements (2011: USD 46.4m). The fair value of cash and cash equivalents at 31 December 2012 and 2011 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.

Foreign currency

USD000's	2012 Move (%)	Income statement Profit/(loss)	Equity	2011 Move (%)	Income statement Profit/(loss)	Equity
Fall in value of GBP vs USD	5	(38)	(38)	5	(257)	(257)
Increase in value of GBP vs USD	5	(36)	(36)	5	257	257
Fall in value of KGS vs USD	10	(1,088)	(1,009)	10	(360)	(385)
Increase in value of KGS vs USD	10	914	1,122	10	417	428

Interest rates

USD000's	2012 Move	Income statement Profit/(loss)	Equity	2011 Move	Income statement Profit/(loss)	Equity
Fall in US interest rates	0.12	(40)	(40)	0.12	(67)	(67)
Fall in UK interest rates	0.5	(2)	(2)	0.5	(22)	(22)
Increase in US interest rates	2	664	664	2	1,114	1,114
Increase in UK interest rates	2	8	8	2	88	88

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:

	2012 USD'000's			2011 USD'000's		
Nominal amounts	**GBP**	**KGS**	**Other**	**GBP**	**KGS**	**Other**
Financial assets	619	8,153	1,025	4,734	2,233	219
Financial liabilities	(138)	(1,942)	(87)	(410)	(901)	(436)
Short term exposure	**481**	**6,211**	**938**	**4,324**	**1,332**	**(217)**

Fair value of financial instruments
The fair value of the Group's financial instruments at 31 December 2012 and 2011 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 discreet 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.

28 POST BALANCE SHEET EVENTS

On 11 March 2013 583,723 share options with an exercise price of 25p were issued to David McNee, the General Director of Chaarat Zaav.

Corporate Information

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

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