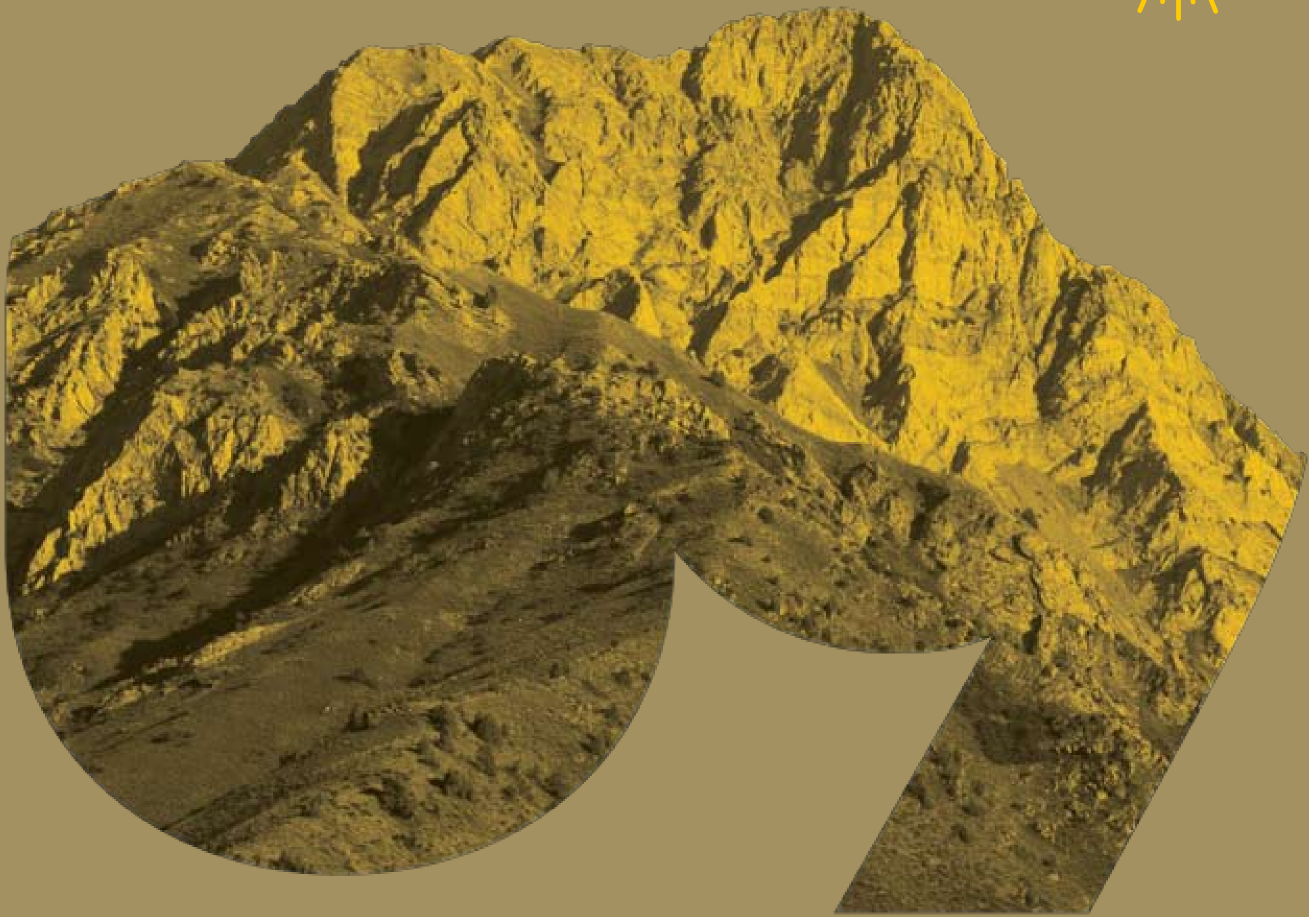

CHAARAT GOLD HOLDINGS LTD.

Annual Report & Accounts 2009

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Highlights

The company and its property

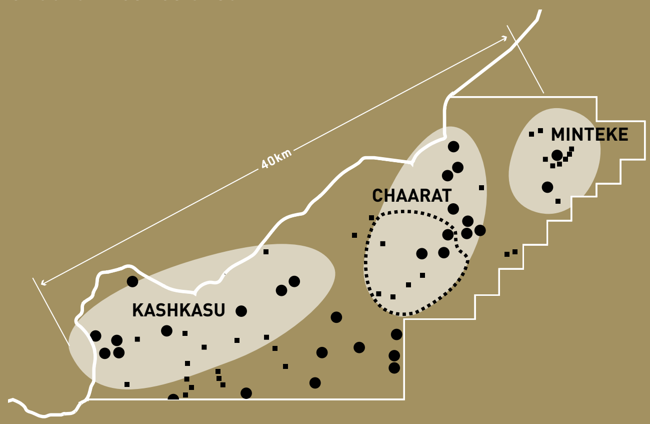
Chaarat Gold Holdings has a 100% interest in a 604 square kilometre licence over a highly prospective gold district in the Tien Shan gold belt in Central Asia.

Drilling has focused on three mineralised zones, the Contact, Main and Tulkubash Zones. Less than six kilometres of the 28 kilometres of identified strike has been explored.

The sedimentary hosted, shear zone controlled mineralisation is found in wide zones with gold and associated silver.

At present a prefeasibility study is in progress to assess the economics of developing those Zones where exploration is relatively advanced, while regional exploration continues to increase the size of the resource.

Chaarat licence area



Progress during 2009

A total of 5,357 metres in 25 drill holes and 206 metres of adits was completed.

Subsequent to the year end, the Company has delineated an increased JORC compliant mineral resource totalling 4.009 million ounces of gold at a grade of 4.14 g/t

The mineral resource of the contiguous C5300 and C4600 Project Areas in the Contact Zone totals 1.71 million ounces at a grade of 4.19 g/t Au.

The mineral resource of the contiguous M2400 and M3000 projects in the Main Zone totals 1.23 million ounces at a grade of 4.18 g/t Au.

The T0700 project area in the Tulkubash Zone, containing 336,000 ounces at a grade of 4.18 g/t Au was shown to host oxide materials which is mostly "free milling" and can be extracted by a relatively low cost metallurgical process. It is expected that the vast majority of the resource in this project can be extracted by open pit making this project even more attractive.

The completion of the prefeasibility study is expected to occur during the third quarter of 2010 and management is carefully reviewing the option of developing an early modest size, low cost, production unit.

SNC Lavalin, a world leader in process engineering, has been commissioned to carry out the process plant engineering and design. SNC Lavalin is working together with RDI, a leading Denver based metallurgical laboratory, to optimise the process and plant design. Significant progress has already been made.

Chairman's report

It has been another exciting year for your company. Much has been achieved; drilling has increased our resource to over four million ounces of gold, work on the prefeasibility study continues apace and in September we welcomed a new shareholder to our register in the form of China Nonferrous Metals International Mining Co. Ltd (CNMIM), a member of the China Nonferrous Metals Mining Co. Ltd (CNMC) group. Together with a strong gold price, these factors have contributed to an increasingly positive sentiment surrounding Chaarat.

Having seen our shares trade at depressed levels in late 2008, early in 2009 management visited Australia and Hong Kong with a view to identifying potential interest in Chaarat as well as to investigate the possibility of a complementary or alternative quotation for our stock. The directors believe that Asian markets have a better understanding of Asian regional risk. Mountainous Central Asia is where, to use industry parlance, "elephants" are to be discovered. Quoting Nick Holland, the CEO of Goldfields: "Kyrgyzstan is the next mining frontier." This view seems to be shared by many Asian investors.

In May we completed a private placing of 18.6 million shares at 12p per share, largely with existing shareholders, for a consideration of £2.2 million. Shortly thereafter, in September, a further placing followed at a price of 25p per share. This placing introduced to Chaarat a major Chinese state owned enterprise, CNMC. CNMC, through its subsidiary CNMIM, subscribed for new shares which equated to 19.9% of the company and showed its support and belief in Chaarat by buying shares at a premium to the market price and placing two high ranking officers as directors on our board.

We are therefore pleased to welcome as directors Mr Luo Tao, President of CNMC, and Mr David Tang, President of CNMIM. The significant financial support of CNMC and its experience and contacts in mineral and metals related industries will be of considerable value to Chaarat.

You will see from the Chief Executive's report on operations that the outcome of our drilling programme has once again confirmed our optimism about the resource. There has been consistency in both grade and continuity of mineralisation in the important Contact Zone which now hosts more than 1.7 million ounces. This project remains open at depth and along strike and we are very hopeful that it will continue to grow.

Another encouraging aspect of last year's work has been the identification of oxide mineralisation in the Tulkubash Zone. It is too early to make definitive predictions, but if a sufficient tonnage of gold bearing oxides, that are amenable to a direct leaching process, can be amassed, which we believe is probable, we should be able to develop a modest sized open pit gold mine in less than two years. Upon validation, the mining of the Tulkubash Zone would become the subject of a separate study and we would move straight to the feasibility stage on this project.

Progress on the prefeasibility study covering the mining of the Main and Contact Zones has meanwhile moved on according to plan. Whilst we were hoping to complete the study earlier, a decision was made last year to postpone the work as new information changed some of our views about geo-technical aspects.

Given the physical location of our project in the Kyrgyz Republic which borders China, and given the respect our Chinese shareholder CNMIM commands both in mainland China and Hong Kong, the board is currently assessing the option of a listing on the Hong Kong stock exchange. The principal reasons for seeking a Hong Kong listing would be to enhance liquidity and to endeavour to have our share price better reflect its true value.

The recent political upheaval in the Kyrgyz Republic has been unhelpful. Our operations have been unaffected even though these events have given rise to uncertainty. So far the interim governing body has been accepted by the principal international powers giving grounds for hope in what has been a turbulent period for the country. The interim government appears determined in its efforts to achieve democratic elections within six months. We are hopeful that this can be fulfilled.

The coming year will present us with new challenges relating to the development of a four million ounce gold project. We will have to broaden our managerial resource from the current very tight team as we move into the development stage. We look forward to the completion of the prefeasibility study and moving to the next stage which is a definitive feasibility study.

Christopher Palmer-Tomkinson
Chairman

At 2.0g/t Cut-off		Indicated Resources			Inferred Resources			Total Resources		
Zone	Sub-Zone	Tonnage (Kt)	Grade (g/t Au)	Contained Gold (Koz)	Tonnage (Kt)	Grade (g/t Au)	Contained Gold (Koz)	Tonnage (Kt)	Grade (g/t Au)	Contained Gold (Koz)
Main Zone	M2400	2,900	4.11	390	800	3.96	106	3,700	4.08	496
	M3000	3,800	4.11	504	1,500	4.57	226	5,300	4.24	730
	M3400				1,000	4.17	134	1,000	4.17	134
	M3900	1,500	3.76	182	700	3.86	90	2,200	3.79	272
	M4400				300	3.86	41	300	3.86	41
	M5000	100	5.81	13	400	5.20	59	500	5.32	72
	M6000	300	3.88	39	600	4.33	90	900	4.18	129
Main Zone Totals / Averages		**8,600**	**4.05**	**1,127**	**5,400**	**4.28**	**744**	**14,000**	**4.15**	**1,871**
Contact Zone	C4000	400	3.33	39	500	3.33	55	900	3.33	94
	C4600	900	3.97	116	1,900	4.16	247	2,800	4.10	363
	C5300	6,700	4.19	906	3,200	4.24	439	9,900	4.21	1,345
Contact Zone Totals / Averages		**8,000**	**4.12**	**1,061**	**5,600**	**4.13**	**741**	**13,600**	**4.13**	**1,802**
Tulkubash	T0700				2,500	4.18	336	2,500	4.18	336
Grand Totals / Averages		**16,600**	**4.09**	**2,188**	**13,500**	**4.20**	**1,821**	**30,100**	**4.14**	**4,009**

Operations report

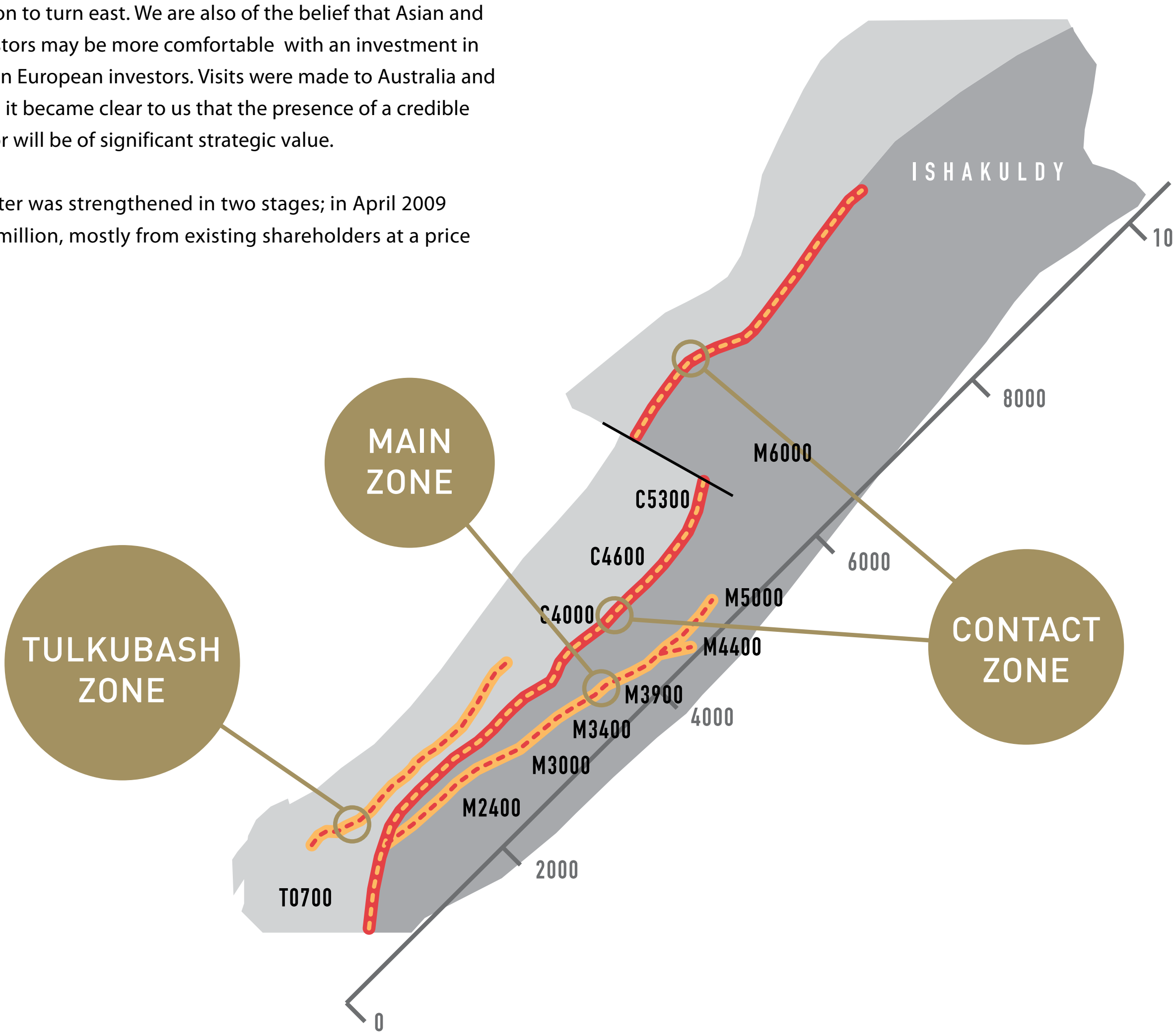
During 2009, the company continued to move the **Chaarat Project** from exploration to development. Considerable progress has been made on the prefeasibility study which is on track for completion during the third quarter of 2010.

Much of management's time was dedicated to developing a more easterly focus for the company. This takes account not only of the geographical position of our deposit, but also the growing Chinese involvement in Central Asia. We are aware that securing project finance from western financial institutions remains difficult, and realising that most equipment nowadays comes from China, your company took a strategic decision to turn east. We are also of the belief that Asian and Australian investors may be more comfortable with an investment in Central Asia than European investors. Visits were made to Australia and Hong Kong and it became clear to us that the presence of a credible Chinese investor will be of significant strategic value.

The share register was strengthened in two stages; in April 2009 we raised £2.2 million, mostly from existing shareholders at a price of 12p. Three months later the company announced that China Nonferrous Metals International Mining Co. Ltd (a subsidiary of China Nonferrous Metals Mining Co. Ltd) had subscribed for 19.9% of the company at a price of 25p which was a significant premium to the market price. This investment was a strong statement of support and belief in Chaarat. Indeed our share price has been boosted by the combination of positive exploration news, shareholders' support and an improved understanding of the potential of our project.

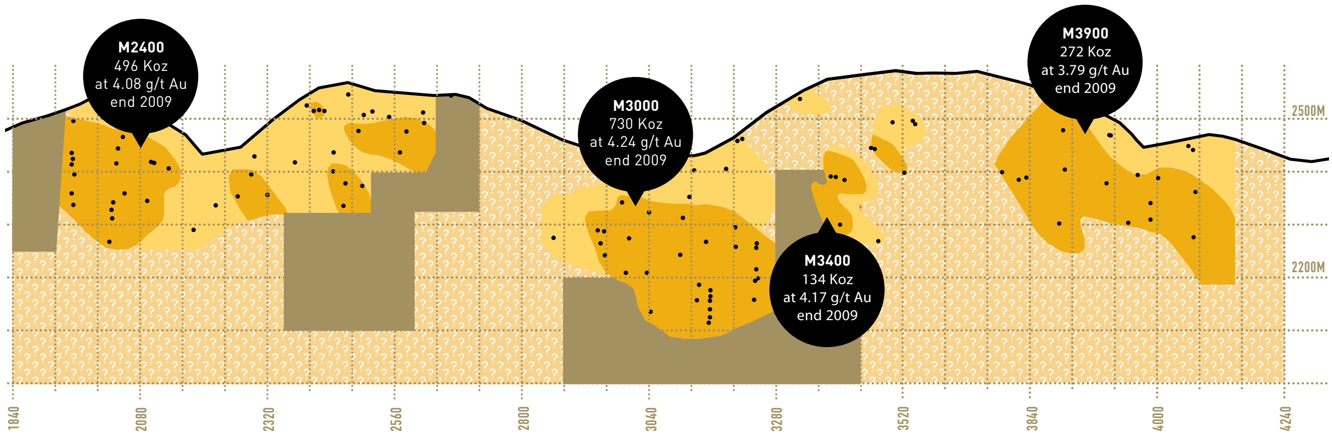
Exploration

The exploration season, which only started after the cash injection from CNMIM, was shorter than usual. However, the work done was very important and resulted not only in a larger resource statement but also provided us with a better insight and understanding of the deposit and the best way to develop it.



Operations report

Main Zone



LONGITUDINAL PROJECTIONS (PART OF MAIN ZONE)

0 50 100 200 300 400 METERS

- Point of penetration of mineralised zone
- Higher grade area
- Lower grade area
- Open potential down dip and along strike
- Area proposed to be drilled during 2010-2011

The Main Zone currently extends to over 4 km of strike and includes seven bodies with a total stated resource of 1.87 million ounces at a grade of 4.15 g/t Au. This resource, which is open in all directions, has mostly underground potential. The ability to drill from surface is limited, so the company has started to develop an adit to enable it to drill from underground and add resource in those areas where it is most beneficial for the mine design.

Chaarat and its advisors are now working on the conceptual mine design which will determine the best location for a production and access adit. The location of the exploration adit has been selected to coincide with the location of the production access adit so that the time to production is shortened and the money spent on the adit is not wasted.

Although most of the resource is to be mined by underground methods a considerable portion is amenable to open pit mining. The company's advisors have generated a preliminary pit shell and it will now be easier to identify the locations where surface drilling will not only increase resource in general, but will also contribute to a low cost open pit resource.

The preliminary, conservative calculation of the open pit mineable inventory geometry is just over 227,000 ounces at a grade of 4.16 g/t with a capped strip ratio of 15:1. The company believes that this inventory can be increased with focused drilling.

Operations report

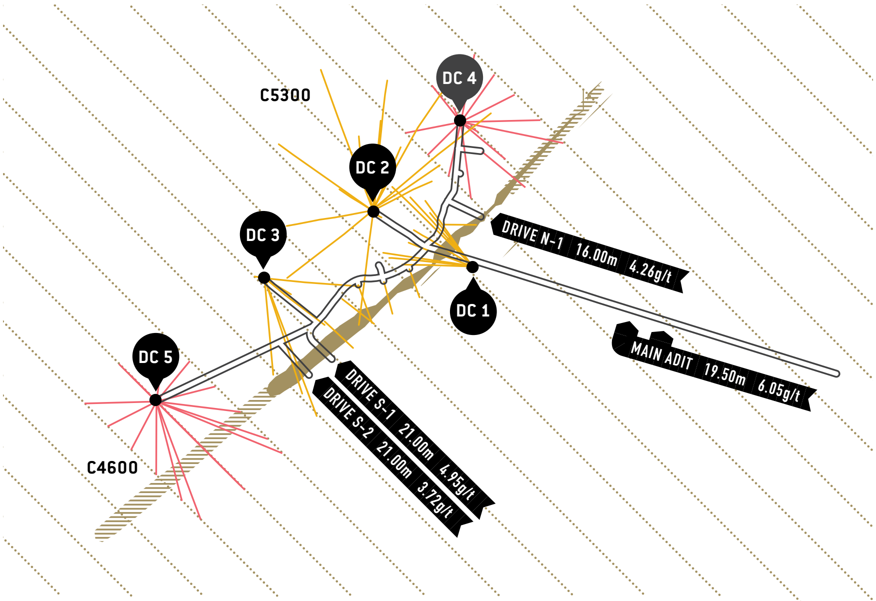
Contact Zone

Contact Zone - Growing and consolidating

The Contact Zone continues to deliver both predictable and encouraging results. During the year two more drives, cutting through the zone, were completed from the drift which runs along the mineralised body, bringing the total number of cross cuts going through the zone to four. These cross cuts provide invaluable information about the mineralised material and the host rock; which allows the company to design the mining work with accuracy and confidence.

The adit was extended southwards and an additional drilling chamber – DC-5 - was constructed to allow additional drilling and to increase the strike. Significant drilling from DC-3 resulted in strike increases as predicted. We believe that drilling from DC-5 will result in further strike extensions.

Towards the end of the season the northern-most cross cut was completed and provided more comfort that the mineralised zone is consistent, wide and well mineralised.

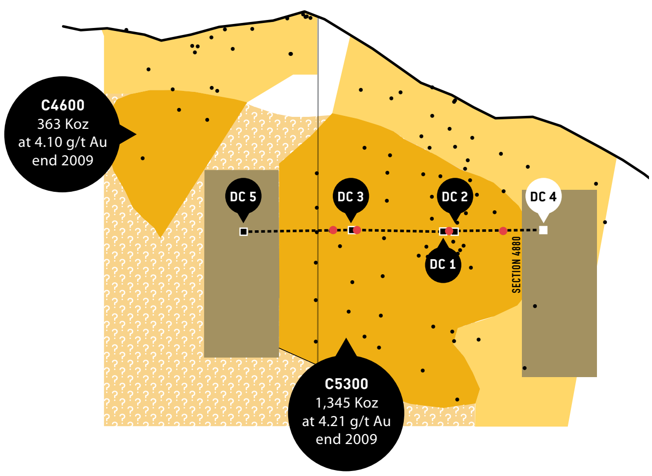


UNDERGROUND DEVELOPMENT IN CONTACT ZONE

- Underground Drill Chamber
- Drill Proven Zone
- Assumed Extension Proven at Different Level
- Existing Drill Hole
- Planned Drill Hole

LONGITUDINAL PROJECTIONS

- Ore intersection in Adit & Drives
- Higher grade area
- Lower grade area
- Open potential down dip and along strike
- Area proposed to be drilled during 2010
- Existing Drift
- Point of penetration of mineralized zone
- Existing Drill chambers
- Drill chamber planned



Operations report

Tulkubash Zone

Tulkubash – An independent project?

The Tulkubash Zone, the least explored and least understood zone, provided us with some major positive news this year. It appears that the mineralisation in this zone is somewhat different from the other zones with very low levels of silver, arsenic and antimony as well as sulphur. A number of metallurgical tests have indicated that the mineralisation is free milling and thus does not require oxidation to retrieve the gold. This is a significant development as the need to oxidise ore adds considerably to the complexity and cost of gold projects.

Even more exciting is the fact that some of the Tulkubash's current resource can be mined by the open pit method which means production costs may be very low.

The company believes that drilling in the right places, which is what we intend to do this season, may significantly increase the open pittable resource.

The company is currently assessing whether it should fast-track the project to feasibility study. It is management's belief that there is potential for having a modest production base from Tulkubash in a much shorter timeframe than originally envisaged.

Mineral resource

The mineral resource calculation was prepared again this year by SRK Consulting (Johannesburg). The detailed resource table broken down by projects and resource category can be found on page 3 of this report.

It is worth noting that not only was the resource significantly increased but also the portion of the resource in the indicated category has increased from 49% to 55%.

The Tulkubash Zone, which is included in its entirety in the inferred category, will benefit this coming year from increased drilling activity and we expect a significant portion of it to be transferred to the indicated category in the next resource update.

Prefeasibility study

Towards the end of 2009 it became apparent that the foot and hanging walls are more competent as we move south along the Contact Zone. A decision was taken to postpone the mine design as these findings could have led to a change in the proposed mining method. Additional geotechnical work was conducted which resulted in a decision to move ahead with the original mining method. This extra work has led to a delay in the original timetable for the mine development.

Work on the prefeasibility study is continuing and we expect to report on its findings during the third quarter of 2010. The biggest challenge of this project is the mining itself; to define the most effective, productive and low cost mining method. Significant effort has been invested into meeting this challenge and finding the right solution.

Process

Following a rigorous sequence of metallurgical trials it became clear that the most suitable process for the sulphide segment of the Chaarat ore is pressure oxidation (POX). This process is well established and widely used elsewhere, hence we do not anticipate any technical complications.

SNC Lavalin, a world leader in process engineering, and RDI, a leading Denver based metallurgical laboratory, have agreed that the optimal process involves flotation of the ore and pressure oxidation of the float concentrate. Following oxidation, the concentrate, together with the tailings from the flotation circuit, will be sent to a carbon-in-leach (CIL) circuit for gold extraction. The process will provide a significant reduction in both capital and operating costs, as well as technical complexity, whilst still subjecting the whole ore to CIL high gold recovery.

An added benefit of this process is a much reduced environmental impact due to the fact that most, if not all, the arsenic is expected to be locked in non-soluble, non-hazardous compounds following the high pressure oxidation process.

SNC and RDI have also made significant progress on the design of the plant.

Suitable sites for the tailings dams and process plant and facilities have been identified. Preliminary work has been undertaken to determine the surface and underground water regime and the geotechnical properties of the sites in order to allow the design of the process and tailings storage facilities.

Infrastructure

An extensive analysis of the best options for road and power has been carried out. We have always been of the view that it may be sensible to develop our own hydro power station. However, we have been in discussions with a neighbouring company and the national electricity company which suggest that if both companies share the cost of building a dedicated power line for their properties, the power security will be the same and the total capital cost of the project will be significantly lower than construction of a hydro power station. The company is currently negotiating the final terms of this arrangement before commencing the detailed design of the power line.

Work is progressing on the access road. There has been greater focus on the accuracy of cost estimates which we are finding are themselves now lower than we had thought. There do not seem to be any material impediments to securing year-round and easy access to the operations. The total distance between the railhead and the property is 190 kilometres.

Work with the community

Chaarat continued its work with the local community during 2009 by supporting the communities in health education and skill building. The Board resolved early in 2010 to establish a not-for-profit organisation which will independently be responsible for such activities and which will be able to receive assistance and funds not only from Chaarat, but also from other additional parties. As in previous years the company continued to grant study scholarships to students.

The Chatkal region is home to some of the most marvellous sceneries and ecological spheres in Central Asia. With the development of the tourism industry it is only a matter of time before the beauty of the Besh Aral and other outstanding reserves will be visited by more than just the intrepid traveller. During the year the company continued its support of the Besh Aral natural reserve and its employees.

The Board also decided to assist the local population in reviving their traditional crafts which had started to dwindle due to changing life styles and to the disappearance of markets for high quality craft items.

Crafts have traditionally been an important element in the preservation of cultural and heritage identity, as well as being a source of income. The Kyrgyz people developed a number of unique crafts such as the Shirdak, a felt carpet and the Chi, a special mat like item made from an endemic cane like weed to a form of art. Some of the oldest Chi are known to come from the Chatkal valley. The colours and patterns of those items are magnificent and the fact that these craft forms are falling away is a matter for concern. The company has therefore decided to launch a project to support high quality local artisans by assisting them in understanding the demands of discerning customers, providing working capital and in marketing high quality finished products. A survey to identify the types of handicrafts has been conducted by a leading expert and it is hoped the project will be rolled out this summer.

As this report is published, deep into 2010, the work on site has already begun. We aim to continue to deliver growth in resource, progress in the project development and perhaps most importantly, develop the very dedicated team which delivers these results.

Dekel Golan
Chief Executive Officer

Directors' biographies

Dekel Golan
Chief Executive Officer, Age 53

Dekel Golan is a graduate of Tel Aviv University. Dekel, formerly of Apex Silver Mines Limited, has extensive experience in promoting and developing businesses both 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.

Christopher David Palmer-Tomkinson
Non-Executive Chairman, Age 68

Christopher Palmer-Tomkinson graduated from Oxford University with a degree in jurisprudence and joined Cazenove in 1963. He served as a partner from 1972 until 2001 and as managing director international corporate finance until May 2002. He was responsible at various times for Cazenove's African and Australian business which enabled him to focus on the resource sector. Christopher is also a former director of Highland Gold Mining Limited.

Luo Tao
Non-Executive Deputy Chairman, Age 56

Luo Tao is the Chairman of China Nonferrous Metals Int'l Mining Co.Ltd (CNMIM), and President of China Nonferrous Metal Mining (Group) Co.Ltd, the parent company of CNMIM. He is the Deputy Chairman of Chaarat and sits on the remuneration committee. Luo is a senior economist with over 30 years experience in the nonferrous metals industry in China, and was a Vice Director of Beijing General Research Institute for Nonferrous Metals. He was also the Chairman of the Committee of Supervisors and Vice President of Aluminium Corporation of China Ltd (CHALCO), a company listed on the New York Stock Exchange and Hong Kong Stock Exchange.

Linda Naylor
Finance Director, Age 49

Linda Naylor is a graduate of the London School of Economics and a Fellow of the Institute of Chartered Accountants of England Wales. She was a partner in Grant Thornton UK LLP for more than twenty years working as a nominated advisor in the Capital Markets team from 1996 and as an audit partner specialising in the natural resource sector.

Alexander Novak
Executive Director, Age 54

Alex Novak is a graduate of the Kazakh Polytechnic Institute (M.Sc). Alex has assisted several companies investing in Kyrgyzstan in various aspects of finance, administration and representation vis a vis the local authorities since 2000. Alex has more than 25 years experience in various aspects of business management in Central Asia including negotiations with governmental institutions, contractors, preparation of development plans, monitoring of operations and public relations. He was instrumental in drafting and signing investment agreements between the government of the Kyrgyz Republic and two extraction companies, Textonic and Kumushtak, a subsidiary of Apex Silver Mines Limited. From 1992 to 1995, Alex was a founding partner and a director of Maya Elev Diamond Limited, a diamond processing plant in Russia. From 1978 through to 1990, Alex held several positions at numerous construction companies in Kazakhstan, including Director of KazStroiMontajAvtomatika.

David Tang
Non-Executive Director, Age 43

David Tang is President of CNMIM. In the early 1990's, David pioneered the trading system for the first nonferrous metals futures commodity exchange in China and worked for several years in Canada in the investment management and consulting industry before returning to China to take up office at CNMIM. He also holds a Masters of Science degree.

Oliver Raymond Greene
Non-Executive Director, Age 66

Oliver Greene is a graduate in Politics, Philosophy and Economics from Oxford University. A career banker, he has over forty years experience as a practitioner in international corporate finance, credit and corporate recovery in the US and Central and Eastern Europe. He has held senior positions at Citibank, Bankers Trust, Chase Manhattan Bank and UBS. In 1998, following the Russian crisis, he accepted an invitation to join the European Bank for Reconstruction & Development (EBRD) as Director of Corporate Recovery and on his retirement in 2003 he became a consultant to the EBRD, an appointment that continues. Since 2004 he has been a member of the Supervisory Board and Chairman of the Audit Committee of Bank Pekao S.A Warsaw (a publicly listed Unicredito Group subsidiary) and is a member of the Supervisory Boards of Korado AS in the Czech Republic and Estonia Cell in Estonia.

Accounts 2009

Directors' report

The Directors present their report and audited financial statements for the year ended 31 December 2009.

Principal Activities and Business Review

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

In common with many exploration groups, the Group raises finance for its exploration and appraisal 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 Report, the Chief Executive's Operations 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 on page 15. No dividend is proposed in respect of the year (2008: nil). The loss for the year of USD 7,428,909 (2008 restated: USD 11,363,369) has been taken to reserves.

Directors

The Directors who served during the year were:

C Palmer-Tomkinson	
L Tao	(appointed 23 October 2009)
D Golan	
A Novak	
L Naylor	(appointed 1 July 2009)
S Comline	(resigned 6 July 2009)
O Greene	
D Tang	(appointed 23 October 2009)

In accordance with the Company's Articles of Association at least one third of the directors (other than alternate directors and any managing director) must retire by rotation at each Annual General Meeting, and may stand for re-appointment at the Meeting. The directors appointed since the last Annual General Meeting are seeking re-appointment at the Meeting. Accordingly, Luo Tao, David Tang and Linda Naylor, all being eligible, offer themselves for re-appointment.

Directors' Interests

Share Interests

The directors of the Company who held office at 31 December 2009 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 10 May 2010:

	Number of Shares	Number of Options over Shares
C Palmer-Tomkinson	6,675,000	382,098
L Tao	-	48,780
D Golan	11,554,033	3,287,805
A Novak	8,960,400	2,059,317
L Naylor	78,000	473,073
O Greene	150,000	382,098
D Tang	-	48,780
	27,417,433	6,681,951

Share Capital and Substantial Share Interests

Details of the Company's share capital are disclosed in note 15 of the financial statements.

On 10 May 2010, 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	19.9
D Golan	11,554,033	10.2
A Novak	8,960,400	7.9
Cazenove Capital Management	7,474,300	6.6
C Palmer-Tomkinson	6,675,000	5.9
Serra Choa Management Limited	6,241,800	5.5
First State Investments	5,445,450	4.8

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations and have, as required by the AIM rules of the London Stock Exchange, prepared the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements are required to present fairly the financial position, financial performance and cash flows of the group. In preparing these financial statements the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Corporate Governance

The Board is committed to maintaining high standards of corporate governance. The Listing Rules of the Financial Services Authority incorporate the Combined 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 Combined Code, the Company's corporate governance procedures take due regard of the principles of good governance set out in the Combined 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 Christopher Palmer-Tomkinson as Chairman, Luo Tao and Dekel Golan. The committee meets as required during each financial year. The committee met once in 2009. 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 Oliver Greene as Chairman, David Tang and Christopher Palmer-Tomkinson. The committee meets on at least two occasions each financial year. It reviews the Company's interim and annual financial statements before submission to the Board for approval, as well as regular reports from management and the external auditors on accounting and internal control matters. Where appropriate, the audit committee monitors the progress of action taken in relation to such matters. The audit committee also recommends the appointment of, and reviews the fees of, the external auditors.

Going concern

At 31 December 2009, the Company had cash and cash equivalents of USD 6.8million and no borrowings. Based on a review of the Company's budgets and cash flow plans, and given the flexibility to alter these to suit prevailing circumstances, the Board considers this is sufficient to maintain the Company as a going concern for a period of over twelve months from the date of signing the annual report and accounts. Completion of a feasibility study and bringing the project to production will require further funding.

Provision of information to auditors

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 auditors are 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 auditors are aware of the information.

Auditors

PKF (UK) LLP were appointed as auditors during the year. A resolution for the reappointment of PKF (UK) LLP will be proposed at the forthcoming annual general meeting. PKF (UK) LLP have expressed their willingness to continue as auditors of the Company.

Dekel Golan
Chief Executive Officer

19 May 2010

Independent auditors' report to the members of Chaarat Gold Holdings Limited

We have audited the group financial statements of Chaarat Gold Holdings Limited for the year ended 31 December 2009 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 group financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the group financial statements give a true and fair view.

In addition we report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the chairman's report, the chief executive's operations report, the directors' biographies and the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2009 and of its loss for the year then ended.

PKF (UK) LLP
London

19 May 2010

Consolidated income statement

For the years ended 31 December

	Note	2009 USD	2008 Restated USD
Exploration expenses		(4,695,271)	(8,244,068)
Administrative expenses		(2,430,171)	(2,461,734)
Administrative expenses- Share options expense		(49,778)	(203,350)
Administrative expenses- Other operating expense		(32,205)	(34,998)
Administrative expenses- Foreign exchange loss		(240,532)	(645,972)
Operating loss		(7,447,957)	(11,590,122)
Financial income	7	19,048	226,753
Taxation	21	-	-
Loss for the year, attributable to equity shareholders of the Parent		(7,428,909)	(11,363,369)
Loss per share (basic and diluted) – USD cents	17	(8.22)c	(15.81)c

See note 16 for details of the restatement of the share options expense for 2007 and 2008.

Consolidated statement of comprehensive income

For the years ended 31 December

	2009 USD	2008 Restated USD
Loss for the period, attributable to shareholders of the Parent	(7,428,909)	(11,363,369)
Other comprehensive income:		
Exchange differences on translating foreign operations	(343,968)	(187,829)
Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the year, net of tax	(343,968)	(187,829)
Total comprehensive income for the period	**(7,772,877)**	**(11,551,198)**

See note 16 for details of the restatement of the share options expense for 2007 and 2008.

Consolidated balance sheet

At 31 December

	Note	2009 USD	2008 Restated USD	2007 Restated USD
Assets				
Non-current assets				
Intangible assets	8	60,558	99,473	4,797
Property, plant and equipment	9	1,221,765	2,022,414	1,215,273
Other receivables	11	-	-	37,740
		1,282,323	2,121,887	1,257,810
Current assets				
Inventories	12	156,691	59,587	475,846
Trade and other receivables	13	418,239	434,610	742,433
Cash and cash equivalents	14	6,812,046	1,375,445	13,128,822
		7,386,976	1,869,642	14,347,101
Assets held for sale	10	-	39,562	-
		7,386,976	1,909,204	14,347,101
Total assets		**8,669,299**	**4,031,091**	**15,604,911**
Liabilities and equity				
Equity attributable to shareholders				
Share Capital	15	1,129,110	718,834	718,834
Share premium	15	27,499,843	15,665,928	15,665,928
Other reserves		13,312,190	13,403,158	13,239,318
Translation reserve		(939,856)	(595,888)	(408,059)
Retained losses		(32,798,843)	(25,510,680)	(14,186,821)
		8,202,444	**3,681,352**	**15,029,200**
Current liabilities				
Trade payables	18	285,890	69,525	401,253
Accrued liabilities	19	180,965	280,214	174,458
		466,855	349,739	575,711
Total liabilities and equity		**8,669,299**	**4,031,091**	**15,604,911**

See note 16 for details of the restatement of the share options expense for 2007 and 2008.

The financial statements were approved and authorised for issue by the Board of Directors on 19 May 2010.

Dekel Golan
Chief Executive Officer

19 May 2010

Consolidated statement of changes in equity

For the years ended 31 December

	Note	Share capital USD	Share premium USD	Retained losses USD	Other reserves USD	Translation reserve USD	Total USD
Balance at 31 December 2007		**718,834**	**15,665,928**	**(11,995,860)**	**11,048,357**	**(408,059)**	**15,029,200**
Restatement	16	-	-	(2,190,961)	2,190,961	-	-
Balance at 31 December 2007 (restated)		**718,834**	**15,665,928**	**(14,186,821)**	**13,239,318**	**(408,059)**	**15,029,200**
Currency translation		-	-	-	-	(187,829)	(187,829)
Net income recognised directly in equity		-	-	-	-	(187,829)	(187,829)
Loss for the year ended 31 December 2008		-	-	(11,363,369)	-	-	(11,363,369)
Total recognised income and expense for the year		-	-	(11,363,369)		(187,829)	(11,551,198)
Share options lapsed		-	-	39,510	(39,510)	-	-
Share options expense		-	-	-	203,350	-	203,350
Balance at 31 December 2008		**718,834**	**15,665,928**	**(25,510,680)**	**13,403,158**	**(595,888)**	**3,681,352**
Currency translation		-	-	-	-	(343,968)	(343,968)
Net income recognised directly in equity		-	-	-	-	(343,968)	(343,968)
Loss for the year ended 31 December 2009		-	-	(7,428,909)	-	-	(7,428,909)
Total recognised income and expense for the year		-	-	(7,428,909)	-	(343,968)	(7,772,877)
Share options lapsed		-	-	140,746	(189,657)	-	(48,911)
Share options expense		-	-	-	98,689	-	98,689
Issuance of shares for cash		410,276	12,351,904	-	-	-	12,762,180
Share issue costs		-	(517,989)	-	-	-	(517,989)
Balance at 31 December 2009	**15(b)**	**1,129,110**	**27,499,843**	**(32,798,843)**	**13,312,190**	**(939,856)**	**8,202,444**

Consolidated cash flow statement

For the years ended 31 December

	Note	2009 USD	2008 Restated USD
Operating activities			
Loss for the year before and after tax		(7,428,909)	(11,363,369)
Adjustments:			
Amortisation expense - intangible assets	8	33,929	21,791
Depreciation expense - property, plant and equipment	9	654,224	613,029
Loss on disposal of property, plant and equipment	3	37,546	19,701
Finance income	7	(19,048)	(226,753)
Share based payments		49,778	203,350
Foreign exchange		(64,025)	618,990
(Increase)/Decrease in inventories		(106,800)	416,259
(Increase)/Decrease in accounts receivable		(19,489)	393,189
Increase/(Decrease) in accounts payable		117,116	(225,972)
Net cash flow used in operations		**(6,745,678)**	**(9,529,785)**
Investing activities			
Purchase of computer software	8	(117)	(116,467)
Purchase of property plant and equipment		(44,680)	(1,642,604)
Proceeds from sale of equipment		42,500	41,885
Purchase of assets held for sale		-	(39,562)
Loans issued		-	(93,316)
Loans repaid		48,557	53,360
Interest received	7	6,600	219,084
Net cash used in investing activities		**52,860**	**(1,577,620)**
Financing activities			
Proceeds from issue of share capital	15	12,762,180	-
Issue costs	15	(517,989)	-
Net cash from financing activities		**12,244,191**	-
Net change in cash and cash equivalents		**5,551,373**	**(11,107,405)**
Cash and cash equivalents at beginning of the year		**1,375,445**	**13,128,822**
Effect of changes in foreign exchange rates		(114,772)	(645,972)
Cash and cash equivalents at end of the year	**14**	**6,812,046**	**1,375,445**

Notes to the financial statements

General information 01

The Group consists of Chaarat Gold Holdings Limited, (the Company), registered in the British Virgin Islands, together with its subsidiaries Chaarat Gold Limited, registered in Guernsey, Closed Joint-Stock Company Chaarat Zaav CJSC, registered in the Kyrgyz Republic and Chaarat Operating Company GmbH, registered in Switzerland.

The Company was incorporated on 20 July 2007 (registration number 1420336) in the British Virgin Islands, and acts as the ultimate holding company of the Group. The Company is listed on the Alternative Investment Market of the London Stock Exchange.

The legal address of the Company is: Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands, VG1110. The Group's principal place of business is at: Chokmorova Street, 127, 720040, Bishkek, Kyrgyzstan.

Chaarat Gold Limited, registered in Guernsey, acts as an intermediate holding company.

Chaarat Operating Company GmbH, incorporated on 16 March 2009, acts as an intermediate management company and operator of the Chaarat project on behalf of Chaarat Zaav. Chaarat Operating Company GmbH has registered a branch office in the Kyrgyz Republic.

The principal activity of Chaarat Zaav CJSC, the Kyrgyz Subsidiary, is the exploration of the Chaarat Licence Area under a licence for geological exploration (the "Licence") issued by the State Agency on Geology and Mineral Resources under the Government of the Kyrgyz Republic (the "SAGMR"). In July 2008 the SAGMR extended the term of the Licence for a further two years from 1 January 2009 until 31 December 2010 by way of Licence Agreement no. 6. This was superseded on 22 April 2009 by way of Licence Agreement no. 7. The Licence extension applies to the entire 604 square kilometre property. The Licence is not subject to any relinquishment requirements. The provisions of Kyrgyz legislation require licence renewal every two years, as is standard for exploration licences in the region. Renewal is subject to evidence of meeting minimum reporting and expenditure requirements, all of which the directors believe are being and will continue to be met.

On 22 October 2009 the State Agency on Geology and Mineral Resources under the Government of the Kyrgyz Republic was disbanded and all responsibilities for legislative and administrative matters relating to Kyrgyz mining companies were transferred from SAGMR to a new government body, the Ministry of Natural Resources of the Kyrgyz Republic ("MNR").

On 5 February 2010 MNR issued an official letter confirming that all Licence Agreement conditions had been observed to that date. The licence has previously been renewed on four similar occasions and the directors expect routine renewal for the two years commencing 1 January 2011.

Accounting policies 02

Significant areas of judgement and estimation

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:

- 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 below provides further detail. The key judgement implicit in this policy will be the determination of the future date upon which development of the property is judged to be commercially viable and development commenced.

- A provision of 100% is made against VAT recoverable, in view of the uncertainty of the timing or ultimate recoverability of these amounts. Note 11 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 below 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 21 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 key point at which this policy is expected to be capable of review will be at the time when the project is proven to be commercially viable.

- 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 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 subsidiary, Chaarat Gold Limited.

Basis of accounting

These financial statements have been prepared in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. As detailed under 'Basis of consolidation' below, the acquisition of the Company in 2007 was treated as a reverse acquisition by its operating subsidiary, without the presence of goodwill. The principal accounting policies adopted in the preparation of the historical financial information are set out below. The policies have been consistently applied.

Going Concern

At 31 December 2009, the Company had cash and cash equivalents of USD 6.8 million and no borrowings. Based on a review of the Company's budgets, and given cash flow plans and the flexibility to alter these to suit prevailing circumstances, the Board considers this is sufficient to maintain the Company as a going concern for a period of over twelve months from the date of signing the annual report and accounts. Completing a feasibility study and bringing the project to production will require further funding.

Adoption of standards effective in 2009

The following standards have been applied by the group from 1 January 2009:

- IAS 1 (Revised) Presentation of financial statements
- IAS 23 (Amendment) Borrowing costs
- IFRS 2 (Amendment) Share based payments
- IAS 27 (Amendment) Consolidated and separate financial statements
- IFRS 7 (Amendment) Financial instruments: Disclosures
- IFRS 8 Operating segments

IFRS effective in 2009 but not relevant

The following standards and interpretations were mandatory for the current accounting period, but are not relevant to the operations of the group.

- IFRS 1 (Amendment) First time adoption of IFRS
- IAS 32 (Amendment) Financial instruments
- IAS 39 and IFRIC 9 (Amendment) Financial instruments: Recognition and measurement, and Reassessment of embedded derivatives
- IFRIC 13 Customer loyalty programmes
- IFRIC 15 Agreements for the construction of real estate
- IFRIC 16 Hedges of a net investment in a foreign operation

Standards and interpretations issued but not yet applied

The directors together with their advisers are in the process of evaluating the impact of standards and/or interpretations that have not yet become effective. Listed below are those standards and/or interpretations most likely to impact the Group:

- IAS 27 (Amendment) Consolidated and separate financial statements
- IFRS 3 (Revised) Business Combinations

Based on the Group's current business model and accounting policies it is felt that these standards and/or interpretations are unlikely to have a material impact on the Group's earnings or shareholders' funds.

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.

The consolidated income statement for the year ended 31 December 2008 consolidated the results of Chaarat Gold Holdings Limited, Chaarat Gold Limited and Chaarat Zaav CJSC for the whole year. The consolidated income statement for the year ended 31 December 2009 consolidated the results of Chaarat Gold Holdings Limited, Chaarat Gold Limited and Chaarat Zaav CJSC for the whole year and Chaarat Operating Company GmbH since its registration on 16 March 2009.

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 performance of 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. Land is not depreciated. The estimated useful lives are as follows:

Buildings	5 years
Office equipment	2.5 to 3 years
Machinery and equipment	3 years
Motor vehicles	5 years
Furniture and facilities	3 to 5 years
Leasehold improvements	3 years

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 is expected to be long lasting, 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.

Non-current assets classified as held for sale

Assets held for sale include assets that the group intends and expects to sell within one year from the date of classification as held for sale. Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortisation.

Inventories

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

Impairment testing

Individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its fair value or value in use. Any such excess of carrying value over fair value or value in use is taken as a debit to the income statement.

Leased assets

In accordance with IAS 17, 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.

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 unit 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.

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 that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.

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 issued share capital and share premium of 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.
- "Retained losses" include all current and prior period results as disclosed in the income statement.

Foreign currency

In accordance with International Accounting Standard 21, 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 presentational 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 presentational 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:

	2009	2008
Kyrgyz Som (KGS) to 1 US dollar (USD)	44.0917	39.4181
Kyrgyz Som (KGS) to 1 UK pound (GBP)	70.4012	57.0450
US dollar (USD) to 1 UK pound (GBP)	1.5967	1.4472

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.

Operating loss 03

The operating loss is stated after charging:

	2009 USD	2008 Restated USD
Depreciation of property, plant and equipment	654,224	591,238
Amortisation of intangible assets	33,880	21,791
Operating lease expenses	66,800	66,530
Share based payment charges	49,778	203,350
Loss on sale of fixed assets	37,546	19,701
Loss on foreign exchange	240,532	645,972
Provision for advance payments to sub-contractors	-	2,870
Impairment of loans receivable	-	64,000
Auditors' remuneration	43,323	36,752

Segmental Analysis 04

Operations are reported internally on the basis of one segment and one geographic location.

Staff numbers and costs 05

	2009 Number	2008 Restated Number
Management and administration	19	21
Operations	41	59
Total	**60**	**80**

The aggregate payroll costs of these persons were as follows:

	2009 USD	2008 Restated USD
Staff wages and salaries	727,919	1,062,241
Social security and other pension costs	112,589	172,904
Employee share based payment charges (restated)	77,189	96,247
Directors' remuneration as detailed in note 6		
Wages and salaries	789,077	940,555
Share based payment charge (restated)	21,500	107,701
	1,728,274	**2,379,648**

Share based payment charges relate to the notional charge attributed to share options granted in the years to 31 December 2009

See note 16 for details of the restatement of the share options expense for 2007 and 2008.

The costs of certain directors' services were charged to the Company via consultancy companies, as separately detailed below and in related parties note 22, rather than directly as short-term employment costs. During 2009 bonuses were paid to the following directors: Dekel Golan USD 79,640 (2008: Nil), Alex Novak USD 40,616 (2008: Nil), Linda Naylor USD 13,804 (2008: Nil). Linda Naylor received voluntary pension contributions in the year of USD 6,212. In 2008 no directors received any pension contributions.

	2009 USD	2008 Restated USD
Wages and salaries (including bonus)		
Paid directly	104,779	169,325
Paid via related party consultancy companies	684,297	771,230
Share based payment charge	535,214	561,960
Total	1,324,290	1,502,515

The highest paid director received emoluments totalling USD 392,688 (2008: USD 370,164) and share based payments of USD 2,420 (2008 restated: USD nil).

Share based payment charges relate to the notional charge attributed to share options granted in the years to 31 December 2009.

Details of individual directors' remuneration are shown below

	2009 USD	2008 USD
D Golan (paid via related party, Mada Consulting Pte Limited)	392,688	370,164
A Novak (paid via related party, Vetan Limited)	203,745	188,784
L Naylor (paid via related party, Central Asia Services Limited)	87,864	-
T Cross (paid via related party, Central Asia Services Limited)	-	212,282
C Palmer-Tomkinson (paid directly)	46,401	34,913
O Greene (paid directly)	42,684	38,949
S Comline (director's and consulting fees, paid directly)	15,694	50,988
T Cross (paid directly)	-	44,475

Finance income 07

	Note	2009 USD	2008 USD
Interest on cash and cash equivalents		6,600	219,084
Unwinding of discount on loan	11	953	2,260
Loan interest receivable		5,864	5,409
Other income		5,631	-
		19,048	**226,753**

Intangible assets - Computer software 08

	USD
Cost	
At 31 December 2007	5,227
Additions	116,467
At 31 December 2008	121,694
Additions	117
Exchange differences	(12,859)
At 31 December 2009	108,952

Amortisation	**USD**
At 31 December 2007	430
Charge for the year	21,791
At 31 December 2008	22,221
Charge for the year	33,929
Exchange differences	(7,756)
At 31 December 2009	48,394

Net book value	
At 31 December 2009	60,558
At 31 December 2008	99,473

	Buildings USD	Machinery and equipment USD	Office equipment USD	Furniture and facilities USD	Motor vehicles USD	Leasehold improvements USD	Total USD
Cost							
At 31 December 2007	56,412	1,119,958	55,747	17,152	179,296	6,657	1,435,222
Additions	73,418	1,379,894	23,404	4,681	161,139	68	1,642,604
Disposals	-	(10,808)	(5,058)	(728)	(58,195)	-	(74,789)
Exchange differences	(10,764)	(179,538)	(6,831)	(1,983)	(25,056)	(667)	(224,839)
At 31 December 2008	119,066	2,309,506	67,262	19,122	257,184	6,058	2,778,198
Additions	3,780	83,746	2,127	120	4,688	-	94,461
Disposals	-	(185,162)	(14,673)	(982)	(25,399)	(849)	(227,065)
Exchange differences	(12,668)	(209,722)	(6,781)	(1,999)	(26,174)	(618)	(257,962)
At 31 December 2009	110,178	1,998,368	47,935	16,261	210,299	4,591	2,387,632
Depreciation							
At 31 December 2007	12,537	151,981	21,152	5,418	26,556	2,305	219,949
Charge for the year	18,151	524,945	20,111	5,343	41,405	3,074	613,029
Disposals	-	(463)	(3,214)	(141)	(9,385)	-	(13,203)
Exchange differences	(2,521)	(51,941)	(3,290)	(904)	(4,890)	(445)	(63,991)
At 31 December 2008	28,167	624,522	34,759	9,716	53,686	4,934	755,784
Charge for the year	21,844	566,753	16,277	4,415	44,072	863	654,224
Disposals	-	(128,850)	(12,398)	(982)	(8,397)	(716)	(151,343)
Exchange differences	(3,519)	(77,770)	(3,769)	(1,113)	(6,102)	(525)	(92,798)
At 31 December 2009	46,492	984,655	34,869	12,036	83,259	4,556	1,165,867
Net book value							
At 31 December 2009	63,686	1,013,713	13,066	4,225	127,040	35	1,221,765
At 31 December 2008	90,899	1,684,984	32,503	9,406	203,498	1,124	2,022,414

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

Assets held for sale 10

	Note	2009 USD	2008 USD
Assets held for sale		-	39,562

Assets held for sale are recorded at cost. A crane acquired by the Company during 2008 was originally marketed for sale in 2008 but is now being retained for use in the Company and has therefore been transferred into Property, plant and equipment in 2009.

Other receivables 11

Long term receivables

	Note	2009 USD	2008 USD
VAT balance at 31 December		1,749,657	1,631,582
Less provision		(1,749,657)	(1,631,582)
VAT recoverable amount		-	-
Long term receivables		-	-

VAT Recoverable

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 in full against this asset as at 31 December 2009 and 31 December 2008 due to uncertainty regarding the timing of recovery.

Non-current portion of long term loan

In the prior year the non-current receivable consisted of the non-current portion of a non-interest bearing loan of USD 160,000 granted during 2006 to CJSC Alaurum. The loan was initially recorded at its fair value, estimated at USD 77,736. This amount reflected the net present value of the future cash flows receivable by the Group using an effective discount rate of 3.41% per annum. A reconciliation of the movements in this loan balance is set out in the following table. The loan was repaid in full in the year.

	Note	2009 USD	2008 USD
Balance at beginning of year		39,047	76,787
Loan granted		-	-
Discounted at 3.41%		-	-
Fair value of loan		39,047	76,787
Repaid in year		(40,000)	(40,000)
Discount unwinding	7	953	2,260
Balance due at end of year		-	39,047
Of which recorded as current other asset		-	39,047

The loan balances recorded above were unsecured.

Inventories 12

	2009 USD	2008 USD
Goods in transit	-	56,542
Equipment spares and consumables	156,691	3,045
Equipment spares and consumables	156,691	59,587

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 transferred to profit and loss as and when used in the Company's exploration activities. No write-downs or reversals have occurred during the respective periods.

No inventories are pledged against payables or other obligations.

Trade and other receivables 13

	2009 USD	2008 USD
Advance payments to sub-contractors	344,793	349,234
Reserve for advance payments to sub-contractors	(2,870)	(2,870)
Loans to sub-contractors	45,932	108,823
Other receivables	30,384	43,423
Provisions for impairment of loans	-	(64,000)
	418,239	**434,610**

As of 31 December 2009, receivables of USD nil (2008: USD 10,081) were past due but not impaired. Financial assets that are less than three months past due are not considered impaired. As of 31 December 2009, financial assets of USD nil (2008: nil) were past due.

Advance payments to sub-contractors

The advance payments were made in relation to contracts entered into with service sub-contractors to provide working capital for those companies. The advance payments are to be repaid by way of deductions from works performed.

The short-term carrying values are considered to be a reasonable approximation of the fair value.

Loans to sub-contractors

The loans to sub-contractors were made in relation to contracts entered into with service sub-contractors to finance the acquisition of equipment for use in those contracts.

Cash and cash equivalents 14

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

	2009 USD	2008 USD
Short-term deposits held in Guernsey	6,726,419	1,317,380
Short-term deposits held in Switzerland	19,033	-
Short-term deposits held in the Kyrgyz Republic	58,503	46,861
Cash in hand	8,091	11,204
	6,812,046	**1,375,445**

Share Capital and Share Premium Accounts 15

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
Authorised at 31 December 2008 and 2009	500,000,000	USD 5,000,000

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

Ordinary shares of USD 0.01 each	Number of shares	Nominal Value USD	Share premium USD	Total USD
1 January and 31 December 2008	71,883,433	718,834	15,665,928	16,384,762
1 January 2009	71,883,433	718,834	15,665,928	16,384,762
Shares issued 11 May 2009	18,558,281	185,583	3,207,465	3,393,048
Share issue costs charged to share premium	-	-	(118,216)	(118,216)
Shares issued 15 September 2009	22,469,289	224,693	9,144,439	9,369,132
Share issue costs charged to share premium	-	-	(399,773)	(399,773)
31 December 2009	112,911,003	1,129,110	27,499,843	28,628,953

On 11 May 2009 the Company made a Private Placing of 18,558,281 shares to various parties at 12p per share.

On 15 September 2009 the Company made a Private Placing of 22,469,289 shares to China Nonferrous Metals Int'l Mining Co. Ltd at 25p per share.

(c) Potential issue of ordinary shares

Share options

At 31 December 2009 the Company had 7,813,823 options (2008: 7,375,000) outstanding for the issue of ordinary shares, as follows:

Grant dates	Exercisable from	Exercisable to	Exercise price	Balance 2007	Number granted 2008	Number lapsed 2008	Balance 2008	Number granted 2009	Number lapsed 2009	Balance 2009
Original Scheme										
16/10/07	01/07/08	01/07/16	GBP 0.54	180,000	-	-	180,000	-	-	180,000
16/10/07	01/07/09	01/07/17	GBP 0.54	180,000	-	180,000	-		-	-
16/10/07	01/07/10	01/07/18	GBP 0.54	180,000	-	180,000	-		-	-
16/10/07	16/10/07	16/10/17	USD 1.0633	300,000	-	-	300,000	-	300,000	-
16/10/07	16/10/07	16/10/15	USD 1.0633	300,000	-	-	300,000	-	-	300,000
16/10/07	08/11/08	16/10/17	USD 0.9166	5,100,000	-	-	5,100,000	-	-	5,100,000
02/11/07	02/08/08	02/11/16	USD 1.0633	100,000	-	-	100,000	-	-	100,000
02/11/07	02/08/09	02/11/17	USD 1.0633	100,000	-	-	100,000	-	100,000	-
02/11/07	02/08/10	02/11/18	USD 1.0633	100,000	-	-	100,000	-	100,000	-
30/06/08	31/12/08	31/12/16	GBP 0.54	-	202,000	-	202,000	-	21,500	180,500
30/06/08	31/12/09	31/12/17	GBP 0.54	-	209,000	-	209,000	-	115,250	93,750
30/06/08	31/12/10	31/12/18	GBP 0.54	-	244,000	-	244,000	-	244,000	-
30/06/08	30/06/09	30/06/17	GBP 0.54	-	180,000	-	180,000	-	-	180,000
30/06/08	30/06/10	30/06/18	GBP 0.54	-	180,000	-	180,000	-	180,000	-
30/06/08	30/06/11	30/06/19	GBP 0.54	-	180,000	-	180,000	-	180,000	-
09/06/09	01/06/10	09/06/17	GBP 0.54	-	-	-	-	217,000	108,500	108,500
09/06/09	01/06/11	09/06/17	GBP 0.54	-	-	-	-	217,000	217,000	-
09/06/09	01/06/12	09/06/17	GBP 0.54	-	-	-	-	231,000	231,000	-
01/09/09	01/09/09	02/11/16	USD 1.0633	-	-	-	-	200,000	-	200,000
Amended scheme										
08/08/09	08/08/12	08/08/17	GBP 0.25	-	-	-	-	511,073	-	511,073
01/09/09	01/09/12	08/08/17	GBP 0.25	-	-	-	-	860,000	-	860,000
Total options				**6,540,000**	**1,195,000**	**360,000**	**7,375,000**	**2,236,073**	**1,797,250**	**7,813,823**
Weighted average exercise price				**USD 0.953**	**USD 1.077**	**USD 1.123**	**USD 0.966**	**USD 0.603**	**USD 1.006**	**USD 0.852**

The number of options exercisable at 31 December 2009 amounted to: 6,634,250 (2008: 6,182,000)

Fair value assumptions for share option charges

No options were exercised during the year. The fair value of options granted during the year has been assessed by using the Black-Scholes Option Valuation Model, using the following inputs:

	Issue date 9 June	Issue date 8 Aug	Issue date 1 Sept
Share price when issued	USD 0.3508	USD 0.3106	USD 0.3372
Exercise prices	USD 0.8611	USD 0.4186	USD 0.4063
Expected volatility	96.9%	97.66%	97.96%
Expected life	years 3.5	years 3.5	years 3.5
Risk free rate (US Federal Funds Rate)	0.2%	0.2%	0.2%
Expected dividends	Nil	Nil	Nil
Average fair value per option	USD 0.0763	USD 0.0505	USD 0.0686

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 49,778 (2008 restated: USD 203,350) of employee remuneration expense has been included in the consolidated income statement.

Restatement of Administrative expenses- share options expense 16

On revisiting the fair value estimates of the share options management has identified that the share based payment charges were incorrectly scheduled and as a result have reduced the period over which the share based payment is charged to be the vesting period attached to options. As a result the years ended 31 December 2007 and 2008 have been restated.
The effect of the restatement is detailed in the table below:

	Original USD	Restatement USD	Restated USD
2007			
Income statement			
Share option charges	163,306	2,191,460	2,354,766
Loss per share USD cents	(11.2)c	(3.8)	(15.0)c
Balance sheet			
Other reserves	11,048,357	2,190,961	13,239,318
Retained losses	(11,995,860)	(2,190,961)	(14,186,821)
2008			
Share option charges	752,345	(548,995)	203,350
Loss per share USD cents	(16.6)c	0.8	(15.8)c
Balance sheet			
Other reserves	11,782,189	1,620,969	13,403,158
Retained losses	(23,889,711)	(1,620,969)	(25,510,680)

Loss per share 17

Loss per share is calculated by reference to the loss for the year of USD 7,428,909 (2008 restated: USD 11,363,369) and the weighted number of shares in issue during the year of 90,367,958 (2008: 71,883,433).

There is no dilutive effect of share options.

Trade payables 18

Trade payables at 31 December consisted of the following:

	2009 USD	2008 USD
Trade payables	269,424	65,844
Social security and employee taxes	16,418	3,434
Other taxes	48	247
	285,890	69,525

The above listed payables were all unsecured.

Trade payables at 31 December 2009 included amounts owed to directors or companies controlled by directors of USD 62,385 (2008: 117,946).

Other payables and accrued liabilities 19

Other current liabilities at 31 December consisted of the following:

	2009 USD	2008 USD
Accruals	180,965	280,214

Deferred taxation 20

Due to the uncertainty surrounding taxation regulations and their implementation, as described in note 21, there can be no accurate assessment of deferred tax assets and liabilities. The current legislation permits generally that the losses of the Kyrgyz subsidiary, Chaarat Zaav, can be carried forward and offset against future profits for a period of five years after the losses are incurred. However, the portion of the subsidiary's taxable losses disclosed in note 21 that qualify for carry-forward is subject to sufficient uncertainty such that no calculation of the potential deferred tax asset has been made.

Income tax expense 21

Tax expense relates only to the Company's Kyrgyz subsidiary, Chaarat Zaav, the Group not being subject to corporate income tax and withholding tax in Guernsey. 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 for Chaarat Zaav of 10% for the year to 31 December 2009 (2008: 10%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2009 USD 000's	**2008 USD 000's**
Result of Kyrgyz subsidiary for the year before tax	(8,670)	(11,535)
Tax rate	10%	10%
Expected tax loss carried forward	(867)	(1,154)
Deferred tax not recognized	867	1,154
Current tax expense, net	-	-

Legal entities of the Kyrgyz Republic must individually report taxable income and remit profit taxes to the appropriate authorities.
On 17 October 2008 the Kyrgyz Republic introduced a new tax code with effect from 1 January 2009 intended to clarify the complicated tax system which has been difficult to interpret and has contributed to commercial uncertainty. The lack of clarity and possibility of differing opinions regarding legal interpretation amongst Government bodies could result in severe fines, penalties and interest charges for companies. While the new tax code seeks to improve the situation it is still in the implementation phase and as a result there remain tax risks in the Kyrgyz Republic substantially more significant than typically found in countries with more developed tax systems.

At the balance sheet date the Group has received no tax claims and the management believes that the Group is in compliance with the tax laws affecting its operations; however the risk remains that the relevant authorities could take differing positions with regard to interpretive issues.

As the Group's operations are at a development stage, the Group has no income tax expense for the years ended 31 December 2009 or 2008. The Group did not recognise any deferred tax assets or liabilities at 31 December 2009 or 2008.

Related party transactions 22

Key management personnel

Key management personnel who were remunerated by the Group during the periods under review were Dekel Golan, Alex Novak, Linda Naylor and Terry Cross. Dekel Golan and Alex Novak charged for their services via entities under their control, being Mada Consulting Pte Limited and Vetan Investments Limited, respectively. A portion of Linda Naylor's and Terry Cross's remuneration was paid by Central Asia Services Limited, a company controlled by Dekel Golan and contracted to provide management services to the Group.

	2009 USD	2008 USD
Expenses charged:		
Mada Consulting Pte Limited (in respect of D Golan)	392,688	370,164
Vetan Investments Limited (in respect of A Novak)	203,745	188,784
Central Asia Services Limited (in respect of T Cross's salary)	-	212,282
Central Asia Services Limited (in respect of L Naylor's salary)	87,864	-
Central Asia Services Limited (for other management services)	359,658	307,345
	1,043,955	1,078,575
Amounts payable at 31 December	25,751	63,677

Vetan Investments Limited charged a total of USD 216,945 (2008: USD 229,546) which includes the amounts detailed above relating to the remuneration of Alex Novak.

Transactions with other related parties

During the year Kyrex Limited charged the Group USD Nil (2008: USD 200,875) for geological services.

During the year the Group charged Kyrex Limited USD Nil (2008: USD 25,667) for the rental of mining equipment.

Many of the Chaarat shareholders, directors and officers, including Dekel Golan, Alex Novak and Christopher Palmer-Tomkinson are also shareholders of Kyrex Limited.

During the year the Group received drilling, geological, and other sub-contracting services totalling USD 2,060,156 (2008: USD: 2,121,978) from Geoservices KG LLC ("Geoservices"). Geoservices has been assisting the Group in geological consultancy works since 2005 and in 2008, following unsatisfactory performance by two mining contractors and a drilling contractor, Chaarat decided to support the development of Geoservices to a fully fledged exploration contractor.

At 31 December 2009 the amount receivable from Geoservices as advanced against works to be performed in 2010 including the maintenance of the site during the winter period was USD 270,071 (2008: USD 317,597).

Commitments, contingencies and other risks 23

Capital expenditure commitment

The Company had no commitments at 31 December 2009 (2008: USD Nil) 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 24 below.

Tax issues

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

Proposed changes to mining legislation

Mining legislation within the Kyrgyz Republic is currently undergoing some major revision with a new draft of "Law on Subsoil" and a number of draft amendments to the existing laws. The draft of "Law on Subsoil" includes proposals to change the licence structuring while one of the amendments to other laws is to introduce Licence retention fees to encourage licence holders to use their licence areas in the most effective way. The new "Law on Subsoil" is not expected to have a material impact on the Group's affairs. Enactment is scheduled to take place in 2010.

Current economic and political environment

The Kyrgyz Republic continues to undergo substantial political, economic and social changes. As an emerging market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Furthermore, the Kyrgyz Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. Although in recent years inflation has not been significant, certain risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, certain currency controls and immature debt and equity markets.

The Group could be affected for the foreseeable future by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets and the ability of the Group to maintain or meet its obligations as they mature. The historical financial information does not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Company's financial statements in the period when they become known and estimable.

Licence agreements

According to Licence Agreement no. 7 dated 22 April 2009 (which is an integral part of the Licence for geological exploration), Chaarat Zaav is required to spend not less than 40 million Kyrgyz Som (approximately USD 930,000 at the rate of exchange at 31 December 2009) annually during 2009 and 2010.

According to a licence agreement dated 20 November 2006 which is an integral part of the Licence for geological exploration of the Resource, Chaarat Zaav was required to invest not less than USD 500,000 in the years ended 31 December 2007 and 2008. These levels of investment were achieved.

On 5 February 2010 MNR issued an official letter confirming that all Licence Agreement conditions had been observed to that date. The licence has previously been renewed on four similar occasions and the directors expect routine renewal for the two years commencing 1 January 2011.

Site restoration liability

According to Kyrgyz legislation and the licence agreement, Chaarat Zaav is committed to restore working areas on the deposit. The restoration is only required to be made if Chaarat Zaav ceases its (exploration) operations on the deposit. At 31 December 2009, management did not make an estimate of restoration liability because there was no intention to cease operations and the cost of restoration was deemed immaterial.

Operating leases 24

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

	2009 USD	2008 USD
Less than one year	-	50,000
Between one and two years	-	35,417
	-	85,417

Financial instruments and financial risk management 25

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

2009	Loans and receivables USD	Financial Liabilities measured at amortised cost USD	Available-for-sale USD
Trade receivables	47,194	-	-
Cash and cash equivalents	6,812,046	-	-
Trade and other payables	-	267,921	-
	6,859,240	**267,921**	**-**
2008			
Assets held for sale	-	-	39,562
Trade receivables	49,703	-	-
Cash and cash equivalents	1,375,445	-	-
Trade and other payables	-	69,524	-
	1,425,148	**69,524**	**39,562**

Credit risk

The Group’s maximum exposure to credit risk, without taking into account any collateral held or other credit enhancements is USD 6,859,240 (2008: USD 1,464,710).

The Group's only significant credit risk is on cash at bank, 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. The fair value of cash and cash equivalents at 31 December 2009 and 2008 did not differ materially from its carrying value.

Market risk

The Group’s financial instruments affected by market risk include bank deposits, trade receivables and trade payables. The following analysis, required by IFRS 7, 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 sensitivity analysis has been prepared on the basis that the components of financial instruments in foreign currencies are all constant, as in place at 31 December 2009. As a consequence, this sensitivity analysis relates to the position as at 31 December 2009.

The following assumptions were made in calculating the sensitivity analysis:
• All income statement sensitivities also impact equity.
• The majority of debt and other deposits are carried at amortised cost and therefore carrying value does not change as interest rates move.

Using the above assumptions, 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:

US$000’s	**2010 Projection**			**2009**		
	Move (%)	**Income statement Profit/(Loss)**	**Equity**	**Move (%)**	**Income statement Profit/(Loss)**	**Equity**
Fall in UK interest rates	0.12%	(7)	(7)	0.25%	(2)	(2)
Fall in UK interest rates	0.5%	(6)	(6)	2%	(13)	(13)
Increase in US interest rates	3%	167	167	3%	21	21
Increase in UK interest rates	3%	35	35	3%	20	20
Fall in value of GBP vs USD	20%	(230)	(230)	20%	(105)	(105)
Increase in value of GBP vs USD	20%	230	230	20%	105	105
Fall in value of KGS vs USD	20%	28	28	20%	28	28
Increase in value of KGS vs USD	20%	(28)	(28)	20%	(28)	(28)

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 subsidiary.

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:

		2009			2008	
Nominal amounts	**GBP**	**USD'000's KGS**	**Other**	**GBP**	**USD'000's KGS**	**Other**
Financial assets	1,206	292	51	665	77	118
Financial liabilities	(130)	(37)	(114)	(142)	(1,215)	(33)
Short term exposure	1,076	255	(63)	523	(1,138)	85

Fair value of financial instruments

The fair value of the Group's financial instruments at 31 December 2009 and 2008 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.

Post balance sheet events 26

On 25 February 2010 the following options were granted to directors in accordance with the amended option scheme.

Director	Options granted
D Golan	487,805
A Novak	307,317
L Naylor	317,073
C Palmer-Tomkinson	56,098
L Tao	48,780
D Tang	48,780
O Greene	56,098

757,780 options were granted on the same terms to employees. All of the options are exercisable between 3 and 8 years from the date of grant.

Under the terms of the amended scheme, the exercise price of the options relate to the market price at the date of grant, using the 15 trading day moving average of the share price prior to grant. At the date of grant the exercise price was calculated as 41p.

Notice of Annual General Meeting

Chaarat Gold Holdings Limited (the *Company*)

Notice is given that the Annual General Meeting of the Company in relation to the financial year ended 31 December 2009 will be held at 14:00 on 30 June 2010 at the offices of Westhouse Holdings plc, One Angel Court London EC2R 7HJ, to consider and, if thought fit, pass the following resolutions:

Ordinary Resolutions

1. To receive, consider and approve the audited financial statements of the Company for the year ended 31 December 2009 (the 2009 Annual Report and Accounts).
2. To re-appoint PKF (UK) LLP, of Farringdon Place, 20 Farringdon Road, London EC1M 3AP as auditors of the Company.
3. To authorise the directors of the Company (the Directors) to determine the remuneration of the auditors.
4. To re-elect as a Director Linda Naylor who is retiring in accordance with the Company's Memorandum & Articles of Association (the Articles) (Reg.12.7) and who, being eligible, offers herself for re-election.
5. To re-elect as a Director David Tang who is retiring in accordance with the Articles (Reg.12.7) and who, being eligible, offers himself for re-election.
6. To re-elect as a Director Luo Tao who is retiring in accordance with the Articles (Reg.12.7) and who, being eligible, offers himself for re-election.

Chaarat Gold Holdings Limited
By Order of the Board

Dekel Golan, Chief Executive Officer
19 May 2010

Registered Office:
Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands, VG1110

Notes:

1. This document is important and requires your immediate attention. If you are in any doubt as to what action to take you are advised to consult an independent advisor.
2. If you have sold or transferred all of your shares, please pass this document and accompanying form to the purchaser, or transferee, or to the agent through whom the transfer was effected for transmission to the transferor or the transferee.
3. Copies of the 2009 Annual Report and Accounts are posted on the Company's website (www.chaarat.com) and will also be available for inspection at the offices of Central Asia Services Limited, 4th Floor, 6 Conduit Street, London W1S 2XE during normal business hours on any weekday (Saturdays and public holidays excepted) and at the registered office of the Company from the date of this notice until the conclusion of the Annual General Meeting.

Notes for holders of Ordinary Shares

1. You are entitled to attend and vote at the meeting.
2. Holders of more than one Ordinary Share may appoint in writing one or two proxies to attend and, on a poll, to vote in place of them. A proxy need not be a Member of the Company.
3. Members (and any proxies or representatives they appoint) agree, by attending the meeting, that they are expressly requesting and that they are willing to receive any communications (including any communications relating to the Company's securities) made at the meeting.
4. A form of proxy is enclosed with this document. The form of proxy (together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that authority) should be sent to Capita Registrars Limited at:

   Capita Registrars Limited
   The Registry
   34 Beckenham Road
   Beckenham
   Kent
   BR3 4TU

   so as to arrive by 14:00 on 28 June 2010, i.e. 48 hours before the time of the meeting.
5. The return of a form of proxy by a Member does not preclude that Member from attending the meeting and voting in person if they so wish.
6. Only those holders of Ordinary Shares registered in the relevant register of securities of the Company as at 14:00 on 28 June 2010 (or, if the meeting is adjourned, in the register of relevant securities as at 14:00 on the day that is three days before the day of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of Ordinary Shares registered in their names at that time. Changes to entries on the relevant register of securities after 14:00 on 28 June 2010 (or, if the meeting is adjourned, in the relevant register of securities after 14:00 on the day that is three days before the day of the adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting.
7. If the meeting is adjourned, then the deadline for revised voting instructions will be 48 hours before the time that the adjourned meeting recommences.

Notes for holders of Depositary Interests:

1. Holders of Depositary Interests (DIs) may vote by directing Capita IRG Trustees Limited (CITL), the Custodian in respect of the DIs, to cast proxy votes in the manner directed in the enclosed DI voting Form of Direction. Holders wishing to attend and vote at the meeting in person should use that form to request the relevant authorisation from CITL.
2. The DI voting Form of Direction (together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that authority) should be sent to Capita Registrars Limited at:

   Capita Registrars Limited
   The Registry
   34 Beckenham Road
   Beckenham
   Kent
   BR3 4TU

   so as to arrive by 14:00 on 27 June 2010, i.e. to allow CITL sufficient time to lodge the combined proxies in the UK 48 hours before the time of the meeting.
3. Instructions for completing and lodging the DI voting Form of Direction are appended to it.
4. You must be registered as the holder of DIs as at 14:00 on 27 June 2010 for your DI voting instruction to be valid.
5. If the meeting is adjourned, then the deadline for revised voting instructions will be 72 hours before the time that the adjourned meeting recommences.

Form of proxy

Chaarat Gold Holdings Limited (the ***Company***)

For completion by holders of Ordinary Shares in the Guernsey Register for use at the Annual General Meeting of the Company in relation to the financial year ended 31 December 2009 to be held at 14:00 on 30 June 2010 at the offices of Westhouse Holdings plc, One Angel Court, London EC2R 7HJ.

I/We ....
(in BLOCK CAPITALS please)

of ....

....

being a shareholder(s) of the Company, appoint the Chairperson of the Meeting or

....

....

to act as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 30 June 2010 and at every adjournment of that meeting and to vote for me/us on my/our behalf as directed below.

Please indicate with an 'X' in the spaces below how you wish your vote to be cast. If no indication is given your proxy will vote for or against the resolutions or abstain from voting as he / she thinks fit.

	Ordinary resolutions	For	Against
1	To approve the audited financial statements for the year ended 31 December 2009		
2	To re-appoint PKF (UK) LLP as auditors of the Company		
3	To authorise the Directors to determine the remuneration of the auditors		
4	To re-appoint Linda Naylor as a Director		
5	To re-appoint David Tang as a Director		
6	To re-appoint Luo Tao as a Director		

Notes

1. If any other proxy is preferred, strike out the words Chairperson of the Meeting and add the name and address of the proxy you wish to appoint and initial the alteration. The proxy need not be a Member.
2. If the appointer is a corporation this form must be completed under its common seal or under the hand of some officer or attorney duly authorised in writing.
3. The signature of any one of joint holders will be sufficient but the names of all the joint holders should be stated.
4. To be valid, this form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power must reach Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned meeting, as the case may be.
5. The completion of this form will not preclude a member from attending the meeting and voting in person.
6. Any alteration of this form must be initialled.

.... Signed

/ / 2010 .... Dated

FOLD 1

FOLD 2

AFFIX
STAMP
HERE

Capita Registrars
The Registry

34 Beckenham Road
Beckenham
Kent
BR3 4TU

FOLD 3 (then turn in)

Form of direction

Chaarat Gold Holdings Limited (the ***Company***)

For completion by holders of Depositary Interests representing shares on a one for one basis in the Company in respect of the Annual General Meeting of the Company in relation to the financial year ended 31 December 2009 to be held at 14:00 on 30 June 2010 at the offices of Westhouse Holdings plc, One Angel Court, London EC2R 7HJ.

I/We ....

Please insert full name(s) and address(es) in BLOCK CAPITALS

of ....

....

being a holder of Depositary Interests representing shares in the Company instruct Capita IRG Trustees Limited, the Depositary, to vote for me/us and on my/our behalf in person or by proxy at the Annual General Meeting of the Company to be held on the above date (and at any adjournment of that meeting) as directed by an 'X' in the spaces below.

	Ordinary resolutions	For	Against
1	To approve the audited financial statements for the year ended 31 December 2009		
2	To re-appoint PKF (UK) LLP as auditors of the Company		
3	To authorise the Directors to determine the remuneration of the auditors		
4	To re-appoint Linda Naylor as a Director		
5	To re-appoint David Tang as a Director		
6	To re-appoint Luo Tao as a Director		

Notes

1. To be effective, this Form of Direction and the power of attorney or other authority (if any) under which it is signed, or a notarially or otherwise certified copy of such power or authority, must be deposited at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 72 hours before the time appointed for holding the meeting.
2. Any alterations made to this Form of Direction should be initialled.
3. In the case of a corporation this Form of Direction should be given under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
4. Please indicate how you wish your votes to be cast by placing "X" in the box provided. If no indication is given, you will be deemed as instructing the Depository to abstain from voting. On receipt of this form duly signed, you will be deemed to have authorised Capita IRG Trustees Limited to vote, or to abstain from voting, as per your instructions.
5. The Depository will appoint the Chairman of the meeting as its proxy to cast your votes. The person appointed proxy may also vote or abstain from voting as he or she thinks fit on any other business (including amendments to resolutions) which may properly come before the meeting.

.... Signed

/ / 2010 .... Dated

FOLD 1

FOLD 2

AFFIX
STAMP
HERE

FOLD 3 (then turn in)

Capita Registrars
The Registry

34 Beckenham Road
Beckenham
Kent
BR3 4TU

Directors and advisors

Directors

C Palmer-Tomkinson	Non-Executive Chairman
L Tao	Non-Executive Deputy Chairman
D Golan	Chief Executive Officer
A Novak	Executive Director
L Naylor	Finance Director
O Greene	Non-Executive Director
D Tang	Non-Executive Director

Company Secretary
Chateau Management Limited
PO Box 693
Hamilton Estate
Charlestown
Nevis
Tel +41 22 316 6620
lee@chateaufid.ch

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

Kyrgyz Republic Office
Chaarat Zaav CJSC
Chokmorova Street, 127
720040, Bishkek
Kyrgyz Republic

Web Site
www.chaarat.com

Investor Relations
Smith`s Corporate Advisory Ltd
20 Northdown Street
London, N1 9BG

Financial Public Relations
Conduit PR Ltd
3rd Floor
76 Cannon Street
London, EC4N 6AE

Auditors
PKF UK LLP
Farringdon Place
20 Farringdon Road
London, EC1M 3AP

Registrars
Capita Registrars (Guernsey) Ltd
Longue Hougue House
St. Sampson
Guernsey, GYI 4JN

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

Principal Bankers
Royal Bank of Scotland International
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey, GY1 4BQ

Nominated Advisor and Broker
Westhouse Securities Ltd
One Angel Court
London, EC2R 7HJ

Joint Broker
Mirabaud Securities LLP
21 St James's Square
London, SW1Y 4JP

Solicitors (UK)
Watson, Farley & Williams LLP
15 Appold Street
London, EC2A 2HB

Solicitors (Guernsey)
Ogier
Ogier House,
St. Julian's Avenue
St. Peter Port
Guernsey, GY1 1WA

Solicitors (BVI)
Ogier
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Road Town, Tortola
British Virgin Islands, VG 1110

Solicitors (Kyrgyz Republic)
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Bishkek, 720040
Kyrgyz Republic

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