



ANNUAL REPORT 2010

Annual report for the financial year 2010

Translation

This English annual report is a translation of the Swedish annual report for 2010. If any discrepancies exist in the translation, the Swedish language version shall prevail.

Definitions

“Central Asia Gold”, “CAG” and “the Company” refer to Central Asia Gold AB (publ) with Swedish corporate registration number 556659-4833 and its subsidiary companies.

Business concept

To become a medium-sized profitable gold producer by global standards by using existing knowledge of and contacts in the central parts of Asia. The Company's operations may also include other minerals besides gold in the future.

Dates for financial information during 2011

Central Asia Gold AB's financial year runs from 1 January to 31 December. During 2011, the Company will issue interim financial information as follows:

Interim report (1) Jan–Mar 2011:	23 May 2011
Interim report (2) Jan–Jun 2011:	18 August 2011
Interim report (3) Jan–Sep 2011:	17 November 2011

2011 Annual General Meeting

The Annual General Meeting will be held on Tuesday, May 31, 2011 in Stockholm at Näringslivets Hus at Storgatan 19, 114 85 Stockholm, starting at 3.00 p.m. Admission from 2.30 p.m. Shareholders who wish to participate must:

i) Be entered in the shareholder register held by Euroclear Sweden AB on the reconciliation date, which is May 25, 2011. In order to participate in the AGM, nominee shareholders must temporarily re-register their shares via their nominee into their own names by May 25, 2011. This should be done in good time.

ii) Notify of their participation to the Company by May 27, 2011 at 4.00 p.m. This notice must be delivered to the Company by phone +46 8 624 26 80, by fax +46 8 624 37 20, by e-mail to the address agm@centralasiagold.se or by regular mail to the registered address Central Asia Gold AB, Engelbrektsplan 2, 4tr. SE-114 34 Stockholm. Notification must include the complete name, personal ID number or corporate registration number, address and telephone number. If the shareholder wants to be represented by a delegate, a proxy for the delegate is to be sent to the Company before the AGM.





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Comments by the Chief Executive Officer



In the annual report for 2009 I clearly defined the mid-term strategy for the development of our business in 2010, this included a focus on:

1. The launching of two Heap Leaching (“HL”) operations:
 - a. A new HL plant at Tardan with an annual production capacity of 1,200 kg, built in 2 phases;
Phase 1. 2010 – crushing, stacking, HL, ADR (no mining; ore and tailings stocks used)
Phase 2. 2011 – mining, copper removal, plant building;
 - b. Re-started the HL plant at Solcocon with a 250 kg annual production target.
2. To continue alluvial gold mining at the Irkutsk and Chita sites in 2010 with profitability being the single criteria for operations continuing.
3. The resuming of exploration at the company’s sizeable license areas.
4. The evaluation of acquisition opportunities of gold exploration properties.

In essence the announced strategy was to focus the Company on a combination of increasing production with a focus on ore mining with a systematic exploration of the license areas.

I am happy to declare that the Company’s progress remains in line with this mid-term strategy, with:

1. Overall production having increased in 2010 compared to 2009 and the company having achieved a positive operating result;
2. Production from ore increasing more than two-fold from 118 kg (2009) to 331 kg (2010);
3. The Company having restarted the Solcocon HL plant and significantly increasing its capacity;
4. The Company having started construction at the HL plant at Tardan in Q3 2010 has completed crushing, stacking, leach pad, pump and absorption facilities during 2010 and initiated testing in Q1 2011;

In 2010 the Company also concluded geochemical surveys of the Staroverenskaya, Tardan, and Uzhunzhul areas. In total, cc. 40 000 samples have been collected and are being processed.

We have filled in the blind spots on our license areas and by the processing of this new data combined with our historical results we have defined exploration targets for each license.

The operating result for 2010 has been negatively impacted by significant underperformance of Artel Lena. We remain positive that Tardan will be fully commissioned by the summer of 2011 and that we will be able to increase Tardan’s production capacity up to Au 1,000–1,200 kg pa during 2011.

During the year the Company sold Artel Tyva and has now sold 30% of Artel Lena in line with our strategy of phasing out the alluvial business where these assets were not proving profitable as stand-alone projects. We plan to further reduce our ownership of Artel Lena in the future.

Our development plans for 2011 are focused on the commissioning of the Tardan HL plant and further ramping up production of gold from ore. With this increased production capacity we intend to further concentrate on reducing the Company’s overall cash costs of production. We will continue exploration at our license areas by studying prospective areas defined in 2010.

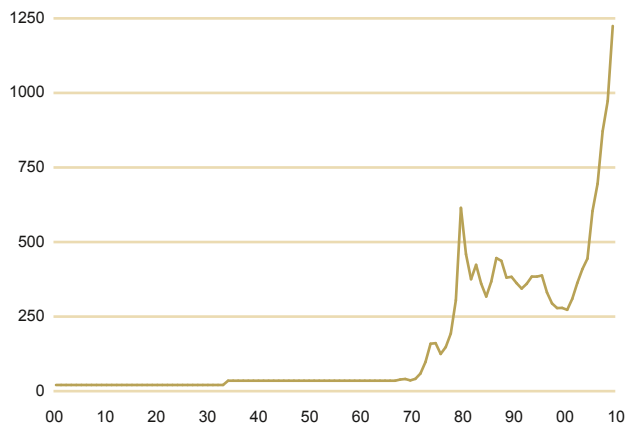
The Company’s progress during the year has been considerably enhanced via the support of the banking relationships that the team has been able to secure, further validating the investment case and the Company’s forecast production volumes. It remains the intention of the Company to deepen its resource base via further acquisitions and as such we have continued to review potential targets throughout the year and in due course look forward to sharing some of these with you.

Our enthusiastic and competent team has worked extremely hard through what has been a demanding year. In addition, we have taken steps to strengthen and deepen the on-site management teams at our operations, commensurate with the increase in activity following the return to production at Solcocon and the construction of the new plant at Tardan.

I would like to take this opportunity to thank the team for their tireless efforts in executing on the targets set by the board for this past year and would also like to thank the shareholders for their continuing support of the Company through this period of transition and growth.

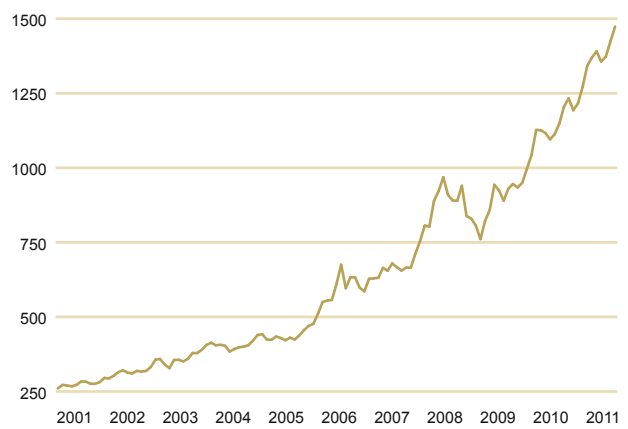
Preston Haskell,
Managing Director

International gold price in USD, 1900–2010



The gold price in USD/oz, 1900–2010

International gold price in USD, 2001–2011



The gold price in USD/oz, April 2001 – April 2011



Overview of operations



Business concept

To become a medium-sized profitable gold producer by global standards by using existing knowledge of and contacts in the central parts of Asia. The Company's operations may also include other minerals besides gold in the future.

Introduction

Central Asia Gold AB ("CAG AB") is a Swedish mining company, operating in eastern Siberia of Russia. At the end of 2010 the group consists of the Swedish parent company and of eight subsidiaries. Furthermore, the subsidiaries own a total of four sub-subsidiaries. The various group companies work in gold production and/or gold prospecting. All sub-sidiaries and sub-subsidiaries in Russia are of the limited liability type (LLC).

The parent company is of an administrative nature and provides the subsidiaries with financing, and is responsible for developing strategies, stock exchange listing, investor relations, etc. The actual industrial operation is managed at subsidiary level.

Vision and strategy

Central Asia Gold AB's business concept is to become a medium-sized profitable gold producer and prospector by global standards. The Company's operations may also include other minerals besides gold in the future. In order to justify a place

on the world map in this respect, Central Asia Gold will have to achieve at least 1,000,000 troy ounces of extractable gold reserves. (1 troy ounce = 31.1 grams). This would create, among other things, a good balance between administration, prospecting and direct production costs. The objective is to achieve extractable gold reserves of at least 2 million ounces.

Prospecting work is also a central component in the business concept. The company's Russian geologists are very experienced, and considering that operating costs in Russia to maintain prospecting are considerably lower than in the West, while the metals found as a result of the prospecting can be sold at world market prices, prospecting is an attractive activity.

In other respects too, Central Asia Gold will use its entrepreneurial attitude to keep down administrative costs in the group, in order to invest the maximum amounts in production and prospecting.

Gold production planning

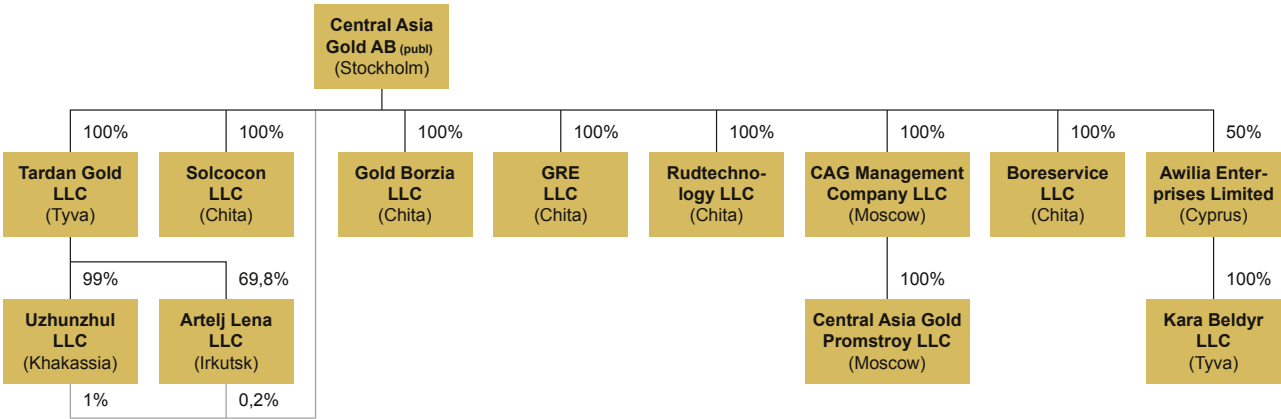
During 2010, the group companies sold 730 kg of gold. During 2011, Central Asia Gold plans to produce approximately a total of 1,400–1,600 kg gold via the various group companies.

Central Asia Gold's choice of strategy and thoughts for the future

Gold companies can operate according to different business models. The earliest phase, the prospecting phase, is when the prospecting company enters. The prospecting company has an idea about where minerals may be found, and acquires a license or a stake and starts trying to prove a financially interesting mineralization using various methods. It costs a certain amount of money to carry out this prospecting work, and the risks are very high. Sometimes the work leads to good results, and sometimes to no results at all. However, the return on capital invested can be very high if the work goes well.

During the next step, the evaluation phase, when a mineralization is proven, a company – perhaps the prospecting company above, or another company – must evaluate the mineralization which requires a great deal of work in order to prepare it for the production phase. During this phase, money needs to be invested in a work program covering measurements of various kinds, drilling deep into the deposit and working out a development plan which shows the financiers that the operation will give a good return on the capital required to go into production.

The organisational structure of the Central Asia Gold Group as at spring 2011



The final stage covers the production phase. The deposit has now been evaluated and financially viable recoverable reserves have been proven. The task now is to carry out the development program from beginning to end. Now, infrastructure such as roads, housing, machines and other equipment must be purchased and be brought into operation. More comprehensive external financing is also needed in order for the project to get through this phase smoothly.

The time elapsed from the start of the prospecting phase to the beginning of the

production phase is usually a number of years, perhaps 5–8. It is therefore necessary to make long term decisions during each stage.

Of course, each stage costs money. If we are talking specifically about gold, it costs a certain number of USD/oz to develop a mineralization. To subsequently convert a mineralization to recoverable ore reserves also costs considerable amounts of money in terms of USD/oz. When the ore reserves are finally shown to exist, it will cost a further number of USD/oz to get them into production.

Central Asia Gold has so far mainly taken steps 2 and 3 in their deposits in Central Asia. This is because the gold company sector in Russia is very fragmented, with many small independent actors, and a large number of mineralizations and deposits developed during the Soviet era, paid for by Soviet state money, are available. For this reason, Central Asia Gold judges that it is currently more interesting to buy up existing mineralizations and deposits than to try to prove them by starting prospecting of our own. This situation is about to change however as unlicensed deposits are bought up and fragmentation in the Russian gold sector is reduced.





Gold

Supply and demand for gold

For many years gold has been valued as an investment, commodity and monetary asset, as well as an object of beauty. Since gold is, in principle, indestructible, all the gold that has ever been produced still exists in one form or another. At the end of 2010, the gold consultancy company Gold Field Mineral Services ("GFMS") estimated that there was a total existing amount of approximately 168,000 tonnes of gold in the world. Of this, 64% is estimated to have been mined and manufactured after 1950. The greatest consumption of gold by far is associated with the jewelry industry. During the past few years, the demand in this industry has mostly exceeded the total mine production of gold. Because of its many special characteristics, gold also has an industrial use. Considerable quantities are used within dentistry and within the electronics, space and pharmaceutical industries.

The supply of gold to the market occurs via mine production, via recycling of gold and through gold sales and gold loans from official reserves. The official gold reserves in various central banks and other official institutions are estimated to account for nearly 16% of the total existing gold reserves.

The world's gold production

The world's primary gold production increased during 2010 by 3% compared with the previous year, according to GFMS, mainly due to production growth in China, Australia and Argentina. Total gold production amounted to 2,652 tonnes. In 2010, for the fourth year running, China was the leading country worldwide for gold production. The Chinese volume of gold produced increased by 6% to 344 tonnes. South Africa has been the world's largest producer since 1905, but in 2010 it slipped to the fourth place amongst the world's producing countries. Australia was in second place and the USA in the third, while Russia on the fifth.

The price of gold

The average global price of gold increased in 2010 to USD 1,226 from USD 1,050 in 2009. The increase, expressed as a percentage, was therefore 17%. However, the volatility of the price of gold fell to 15,9% in 2010.

The gold price in USD/oz 1971-2011



Source: World Gold Council

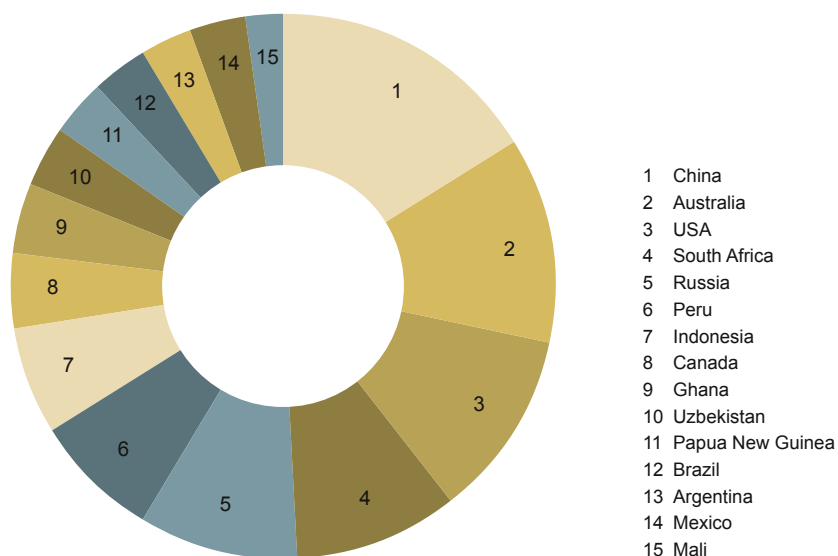
Geographic breakdown of production, gold grade and production costs

Gold is produced in mines in all the continents of the world except in the Antarctic. Today there are several hundreds operating gold mines in the world.

For a long period during the 20th century, South Africa dominated as the num-

ber-one global gold producer. In 1970 it produced 1,000 tonnes, which was 70% of the global volume at this point in time. Since then, South Africa's proportion has fallen, and in 2007 China took the lead as the world's greatest gold nation. In 2010, China produced 13% of the world's production.

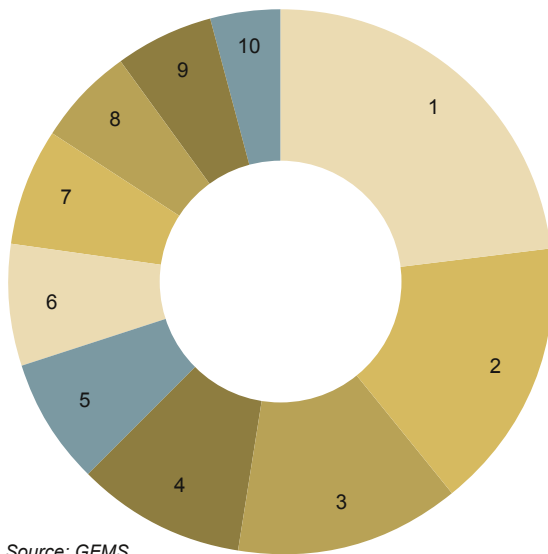
The 15 largest gold-producing countries



Source: Gold.prime-tass

Production costs all over the world vary considerably, depending whether it is a case of mines or open-cast, how deep down the gold deposits are, the type and characteristics of ore bodies and the gold content. According to GFMS, the average stated cash production costs for commercial information-producing larger western mining companies amounted to 551 USD/oz in 2010, which was an increase of 18% compared to 2009.

10 largest gold producers



Source: GFMS

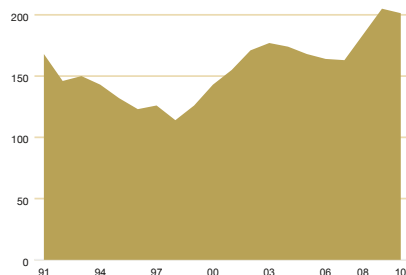
The global trade in gold

The global trade in gold consists primarily of a large proportion which is traded OTC (over the counter), i.e. directly between various market actors. This part of the market is further divided into spot transactions and various types of derivatives, such as forward contracts and options. The OTC market is open around the clock, and the main centers for such trading are London, New York and Zurich, where the large transactions generally take place (central banks and mining companies). The minimum trade size in this market is 1,000 troy ounces (oz). In Dubai and other Far East cities, OTC transactions are also concluded, but on a smaller scale. OTC trading is organized manually by telephone as well as via an electronic trading system.



The Russian gold industry

Official Russian gold production calculated by the Russian Union of Goldminers decreased during 2010 by almost 2% and totaled 201,35 tonnes. In 2010, Russia maintained its position as the world's fifth largest gold-producing country.



Source: Russian Union of Gold Miners

86% of Russian gold production in 2010 is distributed across 14 regions (of a total 84 in Russia) and since 2003, the leading region has been Krasnoyarsk followed by the Chukotka region, which increased its production by approximately 10 tonnes in comparison to 2010. In third place is the Amur region, followed by the Sakha region, which remains the fifth largest gold region. Unlike oil reserves, of which approximately two thirds are located in western Siberia, the eastern areas of Russia (eastern Siberia, the far east and north east) have the largest gold deposits.

The leading gold producing regions in Russia, 2010

Region	Production, tonnes
1. Krasnoyarsk	36.0
2. Chukotka	24.9
3. Amur	19.8
4. Sakha (Yakutia)	18.5
5. Irkutsk	16.0
6. Magadan	15.4

Source: Russian Union of Gold Miners

Industrial structure – reduced fragmentation

The Russian gold sector is highly fragmented, with the 25 top companies accounting for about 70% of the country's total production in 2010. The clear leading producer is Polyus Zoloto, formerly Norilsk Nickel's gold division, whose shares since 2006 have been listed on the London stock exchange.

Russia's 25 leading gold producers, 2010

	Production, tonnes
1. Polyus Zoloto	39.7
2. Chukotskaya GSK	19.9
3. Petropavlovsk	13.9
4. Polimetall	11.0
5. Severstal-Resurs	9.2
6. Russdragmet	5.3
7. Yuzhuralzoloto GK	4.8
8. Vysotajshij	3.7
9. Susumanzoloto	3.7
10. Sovrudnik	3.4
11. Seligdar	3.1
12. Vitim	2.2
13. Priisk Solovevskij	2.2
14. Zapadnaya	2.1
15. Poisk	2.1
16. Amur Zoloto	2.1
17. Zoloto Kamtjatki	2.0
18. Rudnik Karalveem	1.8
19. Omsuktjanskaja	1.6
20. Chukotka	1.5
21. Druza	1.3
22. Dalnevostochnye resursy	1.2
23. Oyna	1.2
24. Vasilevskij rudnik	1.1
25. Nurungan	0.9
Total production of 25 leading producers	145.6
Total Russian production, 2010	201.35
Share of the 25 leading producers	70%

Source: Russian Union of Gold Miners

Refining gold

About ten companies in Russia enrich gold and other precious metals to final market quality. These companies compete and together have a capacity that significantly exceeds current production volumes. Therefore the cost of refining is low, amounting to some 1% of the market price. The most modern facilities are the ones in Prioksk (south of Moscow) and in Krasnoyarsk (eastern Siberia).

Legal factors

The main law regulating the Russian mining sector is the "Federal Law concerning Mineral Resources" enacted in 1992 and amended in 1995. Russian minerals always remain in state ownership. A licence holder is only granted the right to exploit the minerals. Precisely as in the oil sector, these licences can pertain to prospecting, production or both. A prospecting licence is currently awarded for a five-year term, a production licence for 20 years and a combined licence for 25 years. The working programme included in the licence must be approved by three bodies – the GKZ-committee (see above), the state Russian mining inspection (Gozgortekhnadzor) and also by the environmental authorities.

A second legal act of significance is "The Federal Law regarding Precious Metals and Gems" enacted in 1998. This law in principle says that the rights to any precious metals and gems produced belong to the holder of the production licence (unless otherwise explicitly stated in the licence agreement).

Foreign gold producers in Russia (kg per year)

Company	2003	2004	2005	2006	2007	2008	2009	2010
Kinross Gold Corp	5,474	3,949	4,696	1,212	1,942	11,575	25,591	19,910
Petropavlovsk Plc	0	0	0	0	0	0	14,835	13,924
Highland Gold Mining	6,005	6,143	5,041	5,026	4,623	5,120	5,145	5,338
Leviev Group	0	0	0	0	134	1,221	1,969	1,893
Angara Mining Plc	0	0	53	1,138	1,594	1,057	949	850
Central Asia Gold AB	0	0	0	311	1,073	834	666	730
High River Gold Mines	4,811	4,898	4,874	4,720	4,683	1,867	0	0
Bema Gold Corp.	3,624	2,612	2,804	2,778	110	0	0	0
Total	19,914	17,602	17,945	15,185	14,159	21,674	49,155	42,645

Source: Russian Union of Gold Miners

Our Environmental policy



Environmental awareness is a central issue in a company active within operations that involve environmental risks. In the case of Central Asia Gold, the significant activities are carried out on land areas, for example when ore is extracted using heavy equipment and when explosives are used. In addition, the enrichment process of the ores demands utilisation of the various chemical compounds. On balance, therefore, the operations of Central Asia Gold are potentially damaging to nature.

Many Russian environmental laws apply to the mineral sector. Environmental in-

spections of the licence area are frequently conducted. Any violations are dealt with by the issue of warnings, instructions or, ultimately, threats to close down the operations. In addition, the licence agreement for the gold deposit contains paragraphs concerning the handling of environmental aspects. Among other things, the closing down of operations must be planned years in advance in order to take the environmental consequences into consideration.

Central Asia Gold intends to address all environmental demands conscientiously.

Share capital and ownership

Share capital, shares issued and outstanding mandate of the shareholder's meeting

CAG completed a rights issue in August 2010. The rights issue was fully subscribed and CAG received proceeds amounting to approximately MSEK 226 before transaction costs. Shares representing approximately MSEK 126 of the total MSEK 226 were paid for by off-setting debts owed by CAG to Bertil Holdings, a major shareholder of CAG. CAG's number of shares increased by 141,225,000 through the rights issue. After the rights issue the total number of shares amounted to 158,878,125, each with a quota value of SEK 1.125, and the share capital amounted to SEK 178,737,891.

On October 08, 2010 the share capital increased by SEK 1,453,209.75 through a directed share issue of 1,291,742 shares for guarantee providers of the rights is-

sue. In addition, share capital was increased by SEK 3.375 (in order to make the total number of shares divisible by 10 for the purpose of the subsequent consolidation of shares) and the number of shares was increased to 160,169,810. The consolidation of shares 10:1 was carried out on October 20, 2010 in order to meet the listing requirements of NASDAQ OMX First North Premier.

At the most recent AGM held on June 28, 2010 in Stockholm the Board of Directors of CAG was authorized, until the next AGM, to conduct share (or warrants or convertible bonds) issues with or without observing the shareholders' preferential rights amounting up to 49,048,698 new shares. The issue price shall in such cases be set as closely as possible to the prevailing market price of the share. It was also decided to issue 10,650,000 warrants for an incentive program for employees.

Changes in share capital

Event	Date	Change in number of shares	Outstanding number of shares	Quotient value/ share	Offer price/ share	Change	Closing share capital
Formation of the company	2004-02-24	1,000	1,000	100	100	100,000	100,000
New share issue *	2004-07-13	2,000,000	2,500,000	0.20	0.40	400,000	500,000
New share issue	2004-09-20	88,774	2,588,774	0.20	0.40	17,755	517,755
Issue in kind	2004-09-20	85,500,000	88,088,774	0.20	0.40	17,100,000	17,617,755
New share issue	2004-11-15	50,000,000	138,088,774	0.20	0.40	10,000,000	27,617,755
New share issue	2005-03-16	25,000,000	163,088,774	0.20	0.48	5,000,000	32,617,755
New share issue	2005-06-20	36,000,000	199,088,774	0.20	0.57	7,200,000	39,817,755
New share issue via share warrants	2005-07-12	36,756	199,125,530	0.20	0.60	7,351	39,825,106
New share issue via issue of warrants	2005-10-03	5,483,272	204,608,802	0.20	0.60	1,096,654	40,921,760
New share issue	2005-10-13	24,000,000	228,608,802	0.20	1.21	4,800,000	45,721,760
New share issue via issue of warrants	2006-01-17	2,143,677	230,752,479	0.20	0.60	428,735	46,150,496
New share issue via issue of warrants	2006-06-22	6,000,000	291,196,923	0.20	0.40	1,200,000	58,239,385
Offset share issue	2006-07-06	54,444,444	285,196,923	0.20	1.44	10,888,889	57,039,385
New share issue	2006-10-03	75,000,000	366,196,923	0.20	2.02	15,000,000	73,239,385
New share issue	2007-02-01	36,000,000	402,196,923	0.20	1.86	7,200,000	80,439,384
Offset share issue	2007-05-07	10,013,147	412,210,070	0.20	2.03	2,002,629	82,442,014
New share issue	2008-07-24	117,774,304	529,984,374	0.20	0.55	23,554,861	105,996,875
New share issue via share warrants	2008-10-03	135,388	530,119,762	0.20	0.55	27,078	106,023,952
New share issue via share warrants	2008-11-04	7,314	530,127,076	0.20	0.55	1,463	106,025,415
New share issue via share warrants	2008-12-11	660	530,127,736	0.20	0.55	132	106,025,547
New share issue	2008-12-15	497,264	530,625,000	0.20	0.20	99,453	106,125,000
Reduction of quotient value	2009-03-17	—	530,625,000	0.05	—	-79,593,750	26,531,250
Issue in kind	2009-03-17	3,000,000,000	3,530,625,000	0.05	0.06	150,000,000	176,531,250
Reversed split	2009-07-15	-3,512,971,875	17,653,125	10.00	—	0	176,531,250
Reduction of share capital	2010-09-01	—	17,653,125	1.125	—	-156,671,484	19,859,766
New share issue		139,492,384	157,145,509	1.125	1.60	156,928,932	176,788,698
New share issue	2010-09-14	1,732,616	158,878,125	1.125	1.60	1,949,193	178,737,891
New share issue	2010-10-08	1,291,742	160,169,867	1.125	1.7031	1,453,210	180,191,101
New share issue	2010-10-08	3	160,169,870	1.125	1.125	3	180,191,104
Reversed split	2010-10-20	-144,152,883	16,016,987	11.25	—	—	180,191,104

* Reduction of par value per share to SEK 0.20.

The 17 largest owners in Central Asia Gold AB (publ) at March, 2011, updated for known changes

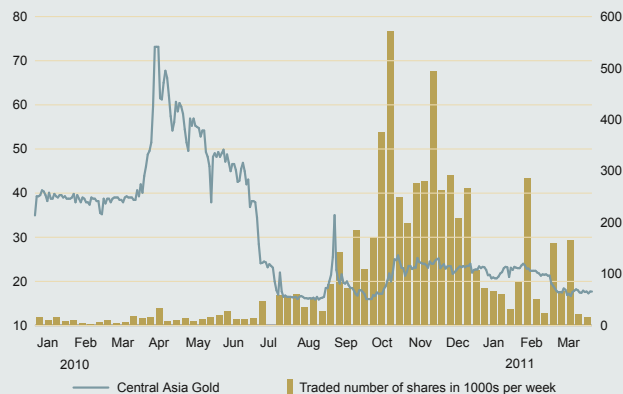
Shareholder	Number of shares	% share of ownership
Bertil Holdings Ltd	10,111,500	63.13%
Artradis Fund Management PTE LTD	776,315	4.85%
Swiss Life (Liechtenstein)	530,000	3.31%
Ellge Kapital AB	370,287	2.31%
Greypson Investments Ltd	270,168	1.69%
Royal Skandia Life	268,298	1.68%
Försäkringsbolaget, Avanza Pension	263,704	1.65%
Banque Öhman S.A.	240,282	1.50%
4100, Victory	223,858	1.40%
KL Capital Aktiebolag	191,786	1.20%
Six Sis AG, W8IMY	171,310	1.07%
Clearstream Banking S.A., W8IMY	141,672	0.88%
Svea Lands. S.A	120,615	0.75%
Plotek, Bernt	111,152	0.69%
Gibson, Stuart	101,206	0.63%
Kaiser, Titti	91,844	0.57%
Balestri, Alessandro	89,675	0.56%
Subtotal for the 17 largest owners	14,073,672	87.87%
Other approximat 3 800 owners	1,943,315	12.13%
Total number of shares outstanding before dilution	16,016,987	100.00%
Warrants	2,500,000	
Total number of shares after dilution	18,516,987	

Source: Euroclear AB and Central Asia Gold AB

Share price and daily number of shares traded in Central Asia Gold March 28, 2005 – March 31, 2011



Share price and daily number of shares traded in Central Asia Gold January 2, 2010 – March 31, 2011



Operational key ratios

The key ratios refer to the group.

	2010	2009	Definitions
Profitability			
Ore processing (thousands of tonnes)	174	20	The quantity of treated ore within the mine-area during the period (thousands of tonnes)
Gold sands processing (thousands m ³)	713	935	The volume of gold sands processed during the period
Gold production (oz) during the period	23,470	21,636	Gold production obtained during the period (troy oz)
Gold sales during the period (oz)	23,786	21,411	Actual sold gold production during the period (troy oz)
Average realized gold price (USD/oz)	1,257	951	Average price received during the period (USD/oz)
Return on equity (%)	2.6%	86.4%	Net profit/loss for the period as a percentage of average equity during the period, including minority holdings
Capital structure			
Equity, TSEK	405,511	196,102	Total equity at the end of the period, excluding minority holdings
Interest-bearing liabilities, TSEK	118,133	140,594	Total interest-bearing liabilities at the end of the period
Equity ratio (%)	63.6%	44.5%	Equity, excluding minority holdings, as a percentage of the balance sheet total
Cash flow and liquidity			
Cash flow before investments, TSEK	-96,853	4,586	Operating profit/loss plus depreciations, minus the change in working capital
Cash flow after investments and financing, TSEK	-839	22,662	Operating profit/loss plus depreciations minus the change in working capital and investments and after financing
Liquid assets, TSEK	22,230	22,732	Bank deposits and cash at the end of the period
Investments			
Capital investments	88,232	80	Net investments in tangible fixed assets (after adjustment for any disinvestments)
Employees			
Average number of employees during the period	916	932	
Share data			
Number of outstanding shares before dilution at the end of the period	16,016,987	1,765,312	Number of issued shares at the end of the period, excluding the effect of outstanding warrants and any incentive options
Average number of outstanding shares during the period before dilution	5,026,107	1,720,246	Number of shares at the end of the period, including outstanding warrants with a redemption price lower than current stock exchange price.
Number of warrants outstanding	510,650,000	2,500,000	Number of non-exercised warrants at the end of the respective period.
Quotient value, SEK *	11.25	10.00	Each share's proportion of the total share capital
Earnings per share, SEK	1.58	85.37	Net profit/loss after tax divided by the average number of outstanding shares during the period
Equity per share, SEK	25.23	110.13	Total equity, excluding minority holdings, in relation to the number of issued shares at the end of the period.
Market price per share at the end of the period, SEK	23.00	12.90	Latest market price paid for the shares on the last trading day of the respective period.

Board of Directors, senior executives and auditor

BOARD OF DIRECTORS



Lars Guldstrand

Chairman of the Board. Lars Guldstrand is a Swedish citizen, born 1957, with more than 25 years' experience in international leadership and investment in the telecoms, media and technology sectors. He has also worked with corporate turnarounds and reorganizations, M&A activities in a number of other areas, including the finance and Internet sectors.

During his career Lars Guldstrand has held leading positions in a number of privately owned and publicly listed companies in Europe and the U.S., including Eniro AB. Lars Guldstrand is a partner and Chairman in GKL Growth Capital AB, Eco Energy, Scandinavia Centum Finance Services International AB, KMW Energi AB and G-Life AB.

He is also member of the board of Loxsystem AB and Amari Resources Ltd.

Lars Guldstrand holds an MBA from California Coast University, California in the U.S.

Holding in Central Asia Gold: 370,287 shares through companies.



Preston Haskell

Preston Haskell is U.S. citizen, born 1966, and has been active as a businessman in Russia since the early 1990s.

Haskell is a member of the Board of Fleming Family and Partners Real Estate Development Fund Ltd.

Preston Haskell has a degree in economics from the University of Southern California in the U.S.

Holding in Central Asia Gold: 10,111,500 shares and 1,872,500 warrants through companies.



Mike Nunn

Mike Nunn is a South African citizen and mining entrepreneur born in 1959. He is the founder of Amari Holdings, a business that drew on his experience and success in the commodities industry and his African business network.

Mike Nunn is an global pioneer within the Tanzanite segment. Tanzanite is a gemstone. As founder and former CEO of TanzaniteOne Ltd (listed on London's AIM) he developed a local operation into one of the world's foremost producers of and market leaders for tanzanite. Nunn also founded the Tanzanite Foundation, an industry organisation that oversees the global marketing of tanzanite.

Among his other mineral related activities, Nunn was involved in turning around MDM, an old mining engineering company that has since become a leading African mining consulting company whose shares were listed on the AIM in 2008.

In 2005 Nunn founded Xceldiam Ltd, an Angolan diamond prospecting company that was successfully floated on the AIM in 2006 and was later sold to Petra Diamonds.

Nunn consolidated part of his mining interests in mid-2006 and created AMARI, an Africa-focused mining and mineral resources investment company with interests in gold, platinum, uranium, manganese, nickel, coal and iron ore.

Nunn is currently Working Chairman of AMARI and is based in Johannesburg, South Africa.

Holding in Central Asia Gold: 0

BOARD OF DIRECTORS



Patric Perenius

Patric Perenius is a Swedish citizen, born 1951. Patric graduated 1977 with a M.Sc in mining from the Royal Institute of Technology in Stockholm. After working with oil exploration with Swedish Petroleum Exploration and Norsk Hydro, Patric participated as founder of several oil and mineral exploration companies, such as Secab, Tricorona, Aurex, Gexco, Yield Archelon, Svenska Capital Oil and Geotermica. In addition to Central Asia Gold, Patric Perenius is also member of the boards of Archelon Mineral, Commodity Quest, Nordic Iron Ore and Geotermica.

Holding in Central Asia Gold: 48,130 shares



Alice Volgina

Alice Volgina is a Russian citizen, born 1966. Alice has a degree in English translation from Moscow's State University of Linguistics. Since 1999 she has been a partner in and CFO of Preston Haskell's Colliers International investment group. Between 1996–1999 Alice worked as Vice President of HIB Limited and in 1988–1996 she worked in customs at Moscow's Sheremetyevo airport.

Holding in Central Asia Gold: 0

COMPANY MANAGEMENT

Preston Haskell

(CEO) (see description above)



Pavel Olishevsky

Chief Operating Officer (COO)

Pavel is a Russian citizen born 1973. Pavel has a Masters Degree in Chemistry (MS degree in Chemistry) from Georgetown University in Washington, DC, and as financial analysts (Chartered Financial Analyst, CFA) with extensive experience in the mining sector, last responsible for the construction of a mining operation in fluorite mining.

Holding in Central Asia Gold: 0



Stefan Egerstad

Financial Officer (CFO)

Stefan is a Swedish citizen born 1969. Stefan has an MBA and has a broad experience from senior positions in business, with special focus on Russia. Previously, he was CFO at Zodiak Television AB in Sweden, CEO of MEGA Belaya Dacha OOO, a joint venture between IKEA and "Belaya Dacha" group in Russia, CFO and vice president of Bonny Allied Industries Ltd in Nigeria and authorized auditor at PwC in Sweden. The company has concluded an employment agreement with Stefan Egerstad. It is planned that he starts his employment in spring 2011.

Holding in Central Asia Gold: 0

AUDITORS



Martin Johansson

Authorised Public Accountant with Öhrlings Price-waterhouseCoopers, born 1967. He has been the company's auditor since 2010.

Directors' report

The Board of Directors and the Chief Executive Officer of Central Asia Gold AB (publ) (hereafter referred to as "CAG AB") hereby submit the annual financial statements for financial year 1 January – 31 December 2010.

Group structure

CAG AB is incorporated in Sweden, with mining operations in Eastern Siberia, Russia. In March 2009, CAG AB completed the merger with a Russian group of gold mining companies (hereafter referred to as "NMC") on the basis of a reversed acquisition, and the previous shareholders of NMC, primarily Preston Haskell, became the major shareholder of CAG AB (with an approximate ownership of 64%).

As of today, the Group is comprised of the Swedish Parent Company, CAG AB, which controls ten subsidiaries in Russia and participates in a joint venture incorporated under the laws of Cyprus. The Russian subsidiaries are limited liability companies ("LLC"). The operations involve exploration and production of gold, primarily in the Tyva, Tchita and Irkutsk regions in eastern Siberia in Russia.

The Group's main assets comprise a large number of mineral mining permits (licenses) held by the various subsidiaries. As at the end of December 2010, the licenses are estimated to contain 740,000 troy ounces (oz) (1 oz = 31.1 g) of gold reserves, according to the Russian gold grade categories C1+C2, equalling approximately 23.2 tons of gold.

Since March 29, 2005 and until July 2010, CAG AB was publicly listed on the Nordic Growth Market stock exchange.

Since July 19, 2010 to date, the CAG AB is listed on the Swedish stock exchange NASDAQ OMX First North Premier in Sweden. The number of shareholders as of December 31, 2010 was approximately 3,800.

Operations

The operations of the Group are performed via the subsidiaries and a joint venture in Russia. The main mining licenses operated are the Tardan licence with the Tardan deposit (owned by the subsidiary LLC Tardan Gold), the Staroverinskaya license with the Bogomolovskoye and Kozlovskoye deposits (owned by subsidiary GRE 324), the Kara Beldyr license

operated in a joint venture, Awilia Enterprises Ltd, with Centerra Gold Inc. and the Uzhunzhul license (owned by subsidiary LLC Uzhunzhul). On the basis of the Staroverinskaya license, the Group has the Solcocon Heap leaching plant (in subsidiary LLC Solcocon).

Apart from these mining operations, the Group also has two alluvial mining subsidiaries, LLC Artelj Lena and LLC Gold Borziya, where placer production is conducted.

Mining operations / Production

Tardan Project

The Tardan license is a 540 km² exploration and mining license, include the explicit Tardan Project which applies to a 3.3 km² area. The Tardan Deposit license area is located with good infrastructure only 80 km to the east of Kyzyl, the capital of Republic of Tyva.

As of 1 January 2010, the Tardan deposit reserve contains 7.8 tonnes of gold amenable for open-cast mining and heap leaching.

160 kg of gold was produced at the Tardan gravitation plant in 2010, which is an increase of 57% compared to 2009.

The Tardan mining and heap leach project feasibility study and engineering was initiated in the first quarter of 2010 and the project includes open-pit mining and heap leach processing of 500,000 tonnes of ore per annum at the Tardan deposit with a 100,000 tonnes per annum of gravity pretreatment on minor high-grade ores.

The project feasibility study and basic engineering was completed in the second quarter of 2010 and the project passed State investigation and received State approval in the third quarter of 2010.

In the third quarter of 2010, financing of the Tardan project was secured and access roads construction, site earthworks, and equipment procurement was initiated. At the end of the reporting period, the construction of access roads, water pipelines, leach pad, pond, pump station, reagent preparation unit, adsorption unit, workshops, additional camp accommodation, and hydrometallurgical plant building erection has been completed and a license permit application for cyanide has been submitted to the Federal authorities.

Staroverinskaya license and Solcocon Heap Leach plant

The Solcocon Heap Leach Plant is located on the 220 km² Staroverinskaya exploration and mining license area, approximately 200 km from the railway station Borzja in the Zabaikalsk region. The plant has been kept on maintenance during the majority of 2009, while the Company was reviewing the Staroverinskaya resources.

As of 1 January 2010 reserves at Staroverinskaya license area contains 9.3 tonnes of gold amenable for open-cast mining.

Exploration of the Bogomolovskoye satellite gold occurrences within the Staroverinskaya license area in 2009 resulted in the identification of oxidized ores in two ore bodies, Podgornoe and Yuznoe, suitable for heap leaching at the Solcocon heap leach plant. Detailed exploration of the ore bodies was undertaken in the first half of 2010.

A "permanent exploitation condition description" for the Bogomolovskoye deposit, together with Podgornoe and Yuznoe reserve statements, were approved by the Regional Ministry of Natural Resources in the second quarter of 2010 and the conditions, according to regulations regarding subsoil in Russia, are applied to the ore bodies of the same technical nature for the entire Staroverinskaya license area.

A Mining Plan for the Podgornoe ore body was developed in the third quarter of 2010 and mining to provide ore for the Solcocon heap leach plant was undertaken from August until November 2010 when crushing and stacking of ore stopped for the winter season.

A major repair and reconstruction of the Solcocon ADR plant was undertaken during 2010 whereby the Adsorption-desorption capacity of the plant was increased by 300% to provide for a planned increase in production in 2011. Additional accommodation for personnel has also been built and a new irrigation system has been installed to allow for year-round work of the heap leach and of the ADR plant. A heating system has been installed in the camp, workshops, and garage to support winter production.

171 kg of gold was produced at the Solcocon heap leach plant in 2010, an increase of 530% from the 27 kg produced in 2009.

Alluvial mining

A total of 399 kg of gold was produced by the Group's placer producers (Artelj Lena and Gold Borzja) in 2010. The third placer producer of the Group, Artelj Tyva was kept on conservation during the first half of the year and was sold in the fourth quarter due to decline in the quality of the reserves, escalating cash costs, and underproduction.

In terms of the weather conditions, the 2010 mining season was normal at Gold Borzja, while a colder than average winter and late spring at Artelj Lena, delayed the mining start in 2010 and also made mining more difficult due to icing.

235 kg of gold was produced at Gold Borzja's alluvial operation in 2010, an increase of 17% compared to 2009.

Historical underground mines at Gold Borzja have impacted the production in 2010, as they did in 2009. Drilling results show that historical underground mines are present in the remaining blocks of the Tala deposit, the major resource at Gold Borzja, and will effect mining in the future, as well.

A total of 164 kg of gold was produced at Artel Lena alluvial operation in 2010, a decrease of 39% compared to 2009. Five established mining sites had to be closed in 2008–2009 due to depletion of reserves and, consequently, in 2010 mining had to be moved to two new deposits in remote areas with more difficult technical conditions.

Exploration activities

Tardan Field

Gold mineralisation within the Tardan license area is associated with skarns and metasomatic rocks. Skarn-type gold mineralisation at the Tardan Field has been studied historically. A total of 10 tonnes (300,000 oz) P1 resource were assigned to several ore bodies.

During 2010, a geochemical survey of the Tardan Field has been executed and a total of 10 200 samples have been collected and sent to Stewart Geochemical Laboratory in Moscow. Approximately 30% of the total samples had been assayed by the end of the year.

The geochemical survey program in 2010 focused on defining historical anomalies and identifying new gold anomalies in the

most prospective areas of the Tardan Field for metasomatic mineralisation zones.

The exploration program on Tardan, and within the Tardan area, for the period 2011–2012 was developed during the fourth quarter of 2010 and the purpose of the exploration program is to extend the lifetime of the Tardan factories. The exploration program, with a budget of MRUR 130, will target known mineralized zones within the Tardan deposit area and the Tardan Field.

Kara-Beldyr

The Kara-Beldyr exploration and mining license area is a 34 km² site situated in the Republic of Tyva, 170 km from the capital, Kyzyl. The exploration work on the Kara-Beldyr license area is being undertaken in a joint venture with the Canadian mining company, Centerra Gold Inc (Centerra).

A total of cc. 6,000 metres of diamond drilling has been completed at the Gord, Ezen, and Camp zones in 2010.

At Gord Zone, drilling of 100 metres sections has identified a zone of sulphide hosted gold mineralisation over a strike length of 750 metres to a depth of greater than 250 metres, with an average width of

Gold reserves 2010

Company	Alluvial / Ore	Gold reserves C1 (ton)	Gold reserves C2 (ton)	Gold reserves C1/C2 (ton)	2010 Planned Registration C1/C2 (ton)	Prognostic Resources P1/P2 (ton)	Gold sales 2010 act (kg)
CAG units							
Tardan Gold	Ore	5.5	2.3	7.8		22	160
Kara Beldyr (JV Centerra)	Ore / Exploration					22	
Uzhunzhul	Ore / Exploration					26	
Artel Tyva	Alluvial						
Artel Lena	Alluvial	2.6	1.2	3.8		2	164
NMC units							
GRE (Staroverinskaya license)						132	
Nizhnyaya Borzia	Alluvial	0.6	1.7	2.3			235
Bogomolovskoye	Ore	0.036	9.3	9.3			171
Kozlovskoye	Ore				9.5		
Solcocon	asset holder						
Boreservice	drilling works						
Gold borzia	alluvial operator						
Rudtechnology	heap-leaching factory operator						
Total		8.6	14.6	23.2	9.5	204	730

*Units are part of GRE (Staroverinskaya licence)

C1 and C2 are registered gold reserves according to Russian standards. Please note that according to Russian standards C2 is classified as reserves. Bearing in mind that the difference between western and Russian categories and no linear relationship between the Russian and western categories exists. P1 and P2 are prognostic (forecasted) resources that are estimated on a limited exploration data. This category was used in Soviet Union (and is used in Russia) to quantify the area potential. P1 and P2 as quantitative measures do not exist in Western practice due to its high uncertainty.

25 metres and the mineralisation is open to depth. Further drilling will be focused on the core of the Gord prospect where 50 by 50 m drilling is on-going to evaluate the resources.

Initial exploration and drilling in the Camp (Conglomerate) Zone has identified a gold-bearing structure. This is a relatively narrow zone (10–15m) carrying erratic high grades which have a probable underground potential which should be further tested via additional drilling.

Uzhunzhul

The Uzhunzhul exploration and mining license area is 134 km² area situated in the Republic of Khakassiya, 80 km from the capital Abakan.

Geochemical survey on the license area was completed in 2010 and a total of 5,656 samples have been collected and sent to Stewart Geochemical Laboratory in Moscow. A total of 2,000 samples had been assayed and processed at year end. The results obtained so far have confirmed the Yurkovsky and Paraspan prospects and a new geochemical anomaly referred to as “Lagernaya” has been discovered.

Certain trenches at the Yurkovsky prospect made in previous years had been terminated in mineralised zones. These trenches were extended and sampled during the fourth quarter of 2010.

Staroverinskaya Field

The Staroverinskaya exploration and mining license area is 220 km² site situated in the Zabaikalsk region, 200 km from the railway station in Borzya.

Detailed exploration work at the Staroverinskaya in 2010 was aimed at providing heap-leachable reserves for the Solcocon heap leach operation. Two satellite prospects of the Bogomolovskoe deposit – Podgornoe and Yuzhnoe – have been studied in the first half of 2010. Detailed exploration work at the Kozlovskoe deposit to stratify oxidised and sulphide ore zones of the ore bodies was undertaken during the second half of 2010.

A “permanent exploitation conditions description” for the Bogomolovskoye deposit together with Podgornoe and there Yuzhnoe Reserve Statements were approved by the Regional Ministry of Natural Resources in the second quarter of 2010 and

the conditions, according to subsoil regulations in Russia, are applied to the ore bodies of the same technical nature for the entire Staroverinskaya license area.

TEO and Reserve Statement preparation for the Kozlovskoe deposit was initiated during the fourth quarter of 2010 and a reserve approval at the Kozlovskoe deposit is expected in the spring of 2011.

A Geochemical Survey of the entire Staroverinskaya field on a 100m*100m grid was undertaken during 2010 and a total of 18,241 samples have been collected and shipped to Stewart Geochemical Laboratory in Moscow for assaying. The results are expected in the second quarter of 2011.

Ore samples from the Bogomolovskoe and Kozlovskoe deposits were collected in the fourth quarter 2010 and sent for bio-leaching tests to ESTA geo laboratory in Moscow. The results of the bio-metallurgical tests are expected in the spring of 2011.

Significant events during the year ***Change of place for trading of the company's shares***

On July 19, 2010 CAG AB was approved for trading on Nasdaq OMX First North Premiere. As the result the company left the Nordic Growth Market Stock Exchange. The management of CAG recognised this step as an excellent opportunity to increase the visibility of CAG AB for the potential international investors, and, thus, strengthen the Company's position in the international commodities market.

Rights issue

A rights issue of preference shares was executed in August 2010. This preference shares rights issue was fully subscribed and CAG was provided proceeds amounting to approximately MSEK 226 before transaction costs. Shares representing approximately MSEK 126 of the total MSEK 226 were paid for by off-setting debts owed by CAG to Bertil Holdings Ltd, the major shareholder of CAG AB, a company related to Preston Haskell. As the result of this rights issue, the Company's share capital increased by 141,225,000 with 158,898,125 shares, each with a quotient value of SEK 1.125. The share capital amounted to SEK 178,737,891.

On October 08, 2010 a new directed share issue involving 1,291,742 new shares was

completed directed to the guarantee providers of the rights issue undertaken in August 2010. The nominal value of each share was SEK 1.125 and the share capital increased by SEK 1,453,209.75.

And finally, on October 8, 2010, another 3 shares were issued in order that the amount of share capital could be divisible by 10, for the purpose of subsequent consolidation of shares. The total number of shares was increased to 160,169,870. The consolidation of shares 10:1 was executed on October 20, 2010 in order to meet the listing requirements of NASDAQ OMX First North Premier.

As of December 31, 2010 there were 16,016,987 shares in CAG AB

The proceeds from the rights issue were used to improve financial position the Company, the purchase and improvement of machinery and equipment and for the upgrading of production facilities.

Sale of the subsidiary Artelj Tyva LLC

In the third quarter of 2010, CAG AB's subsidiary, Artelj Tyva LLC, was sold for MRUR 10 to Tekhpromzoloto LLC. The reason for the sale was the significant underproduction of the subsidiary during the last years.

Joint Venture activity

According to the Joint Venture Agreement, concluded in September 2008, between the Canadian gold mining company, Centerra Gold Inc., and CAG AB, the companies agreed to establish a Kara-Beldyr Joint Venture Project. According to the agreement, by investing MUSD 2.5, Centerra Gold Inc. obtains the right, but not the obligation, to earn 50% interest in the Joint Venture (Phase One).

By investing an additional MUSD 4, Centerra Gold Inc. obtains the right, but not the obligation, to earn 70% interest in the Joint Venture Kara-Beldyr (Phase Two).

Phase One was completed in the third quarter of 2010. CAG AB has established a company incorporated under the laws of Cyprus, Awilia Interprises Ltd. The 100% of shares in Kara-Beldyr were transferred to Awilia Interprises Ltd. When Centerra Gold Inc had earned a 50% interest in the Joint Venture project Kara-Beldyr, a total of 50% of the shares in Awilia Interprises Ltd were transferred to Centerra Gold Inc.

After completion of Phase One, Centerra Gold Inc. has elected to exercise the option to increase its interest in the project by investing a further MUS\$ 4 in the Joint Venture, consequently securing a 70% interest in this project.

Earnings and financial position for the group

Revenue and earnings

The net result attributable to the owners of the Parent Company for the Group in 2010 amounted to TSEK 7,964 (146,933) corresponding to SEK 1.58 per share (85.37). It should be noted that the profit for 2009 includes dissolution of negative goodwill of TSEK 195,396. Net results for 2009 excluding the dissolution of negative goodwill were TSEK -48,539.

Revenue from gold sales in 2010 amounted to TSEK 214,037 (155,800) and the change in work in progress and finished goods amounted to TSEK 15,097 (3,009). The total volume of gold sold during the year was 730 kg (666 kg). Other operating income for the year amounted to TSEK 35,838 (1,649) consisting mainly of gains from the disposal of subsidiaries, TSEK 29,131. A total of TSEK 18,153 of exploration costs was capitalised during 2010 (10,750).

Operating costs for 2010 amounted to TSEK 249,346 (198,984) and the operating profit was TSEK 33,779 (167,710). Net financial items amounted to TSEK -16,671 (-23,484) for the year.

Total income tax for the year was TSEK -9,420 (2,707) and net profit for the year attributable to non-controlling interests was TSEK -276 (76).

Investments, liquidity and financing

During 2010, the Group invested TSEK 18,153 (10,750) in intangible fixed assets and TSEK 88,232 (80) in tangible fixed assets. The main portion of the investment in tangible fixed assets refers to the on-going construction of the heap leach plant on the Tardan deposit.

Consolidated cash in the Group as of December 31, 2010 amounted to TSEK 22,230 (22,732). Net proceeds from share issues after transaction costs amounted to TSEK 86,803 (-) and the net cash flow from loans raised and repaid amounted to TSEK 104,161 (26,862).

Significant risks and uncertainties

As a relatively small mining company in its early stages and active in Russia, Central Asia Gold AB is exposed to significant risks. Certain of these are specific to the industry, whilst others are general or related to the business environment in Russia. The main points of uncertainty as assessed by the Board are described below:

Operating Environment of the Group

Central Asia Gold currently operates only in Russia. Although there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market, in particular relatively high inflation. The tax, currency and customs legislation within the Russian Federation are subject to varying interpretations, and changes, which can occur frequently.

The economic perspective of the Russian Federation is primarily dependent on preserving or changing the policy of the country, on the effectiveness of economic measures, financial tools and monetary policy, as well as on the development of fiscal, legal and political systems.

Geological risks

The recoverable gold reserves of a gold exploration and production company are influenced by geologic and economic factors. The estimation of reserves is, therefore, at all times dependent on the international gold price, costs associated with the extraction of the gold, etc. Therefore, the estimated gold reserves of any gold company may change at any point in time. In particular, the alluvial subsidiaries of the CAG AB group are sensitive to cost increases.

Legal environment

CAG operates in a complicated and changing legal environment in Russia.

CAG AB's subsidiary Artelj Lena LLC is involved in various court procedures with a group of former members of Artelj Lena before it was converted from producers' cooperative to LLC. This refers conditions pertaining to the period prior CAG AB acquired Artelj Lena LLC. The issue is complicated, as it refers to a legal entity that no longer exists, the workers collective Artelj Lena. The dispute resulted in a number of court orders, in several cases, the former members of the workers' collective lost their case. However in one

case, a court order resulted in a number of former workers being registered as owners to 5.3% of the re-organised company LLC Artelj Lena. On the basis of the above, the Management of CAG AB deems that all claims against Artelj Lena cannot be satisfied in the future. CAG AB's and Artelj Lena's legal representatives undertake comprehensive legal work aiming to minimise the effects of this case concerning the minority shareholders.

However, there is no guarantee that the former members will not file additional petitions to the Court claiming ownership minority holdings. There is a certain risk that the former minority shareholders will continue to challenge the decision.

The Russian tax legislation is subject to varying interpretations and frequent changes. The CAG's management interpretation of tax legislation, applied to the transactions and operations of CAG, could, in the future, be challenged by the local Russian authorities. As a result, significant additional taxes, penalties and fines may be assessed.

The management believes that the information presented in this report is the most accurate based on management knowledge and experience.

Environmental risk

Environmental awareness is a central issue in a company active within operations involving environmental risks. The majority of CAG's activities are carried out on land areas which are sensitive to impacts of the mining production. Seeking to minimise negative effects of CAG's operations on the environment, CAG has focused on adopting innovative technology, continuously optimizing resources utilisation, and decreasing industrial waste.

During 2010, all subsidiaries of CAG AB, in accordance with the Russian legislation, used a system to monitor the quality of air and water located near production facilities. Environmental production safety measures are the responsibility of environmentally trained professionals.

The CAG Group periodically evaluates its obligations under Russian environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation

tion or legislation, cannot be estimated, but could be material.

In March 2011, the Group was given a penalty from environmental authorities in Russia of MRUR 1 due to the use of cyanide prior to the approval of the cyanide permit at Tardan. The application for the cyanide permit has been made to the authorities and an approval is expected during 2011. Apart from that, the Group's Management believes that there are no significant liabilities for environmental damage as of December 31, 2010.

Environmental policy

CAG has developed an environmental policy in order to minimise the harmful influence on the environment, as follows:

1. Follow Environmental law and regulations adopted in the regions of operation
2. Communication environmental policy to our employees
3. Identify the environmental risks and prevent those
4. Implementing technologies to limit usage of hazardous materials
5. Conducting regular audits to assess and ensure compliance with this policy
6. Monitoring environmental impacts at locations
7. Handle wastes with minimum environmental damage.

Financial risk management

Policy for the management of financial risks

The Group's activities expose it to a variety of financial risks: a) market risk (including currency and gold price risk, time lapse, translation exposure and interest rate risk), b) credit risk and c) liquidity risk including capital risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group tries to mitigate these risks by ensuring that the Board and the Company management have the relevant competence. Consequently, the Company works proactively by carrying out suitable measures to counteract and manage the risks listed above. In addition, the Group obtains advice from consultants when required. The Company does not use derivative instruments to hedge the financial risks.

The Group's assessed risk exposure as regards financial risks can be found in the Accounting Policy section on page 38 of this report.

Financial policy and other information

Capital structure

Issues concerning capital risk, optimum capital structure and the cost of capital are central in all companies. The Board of CAG AB always tries to optimise the cost of capital, however, in accordance with the above, it must also take into account the fact that, at present, the Group is at an early stage of development and the equity/assets ratio must, consequently, be maintained at a relatively high level. The Board of Directors currently considers that the equity ratio of the Group, at least during the start-up phase (before large-scale production has started) shall be at least 50%. As at year end 2010, the Group's equity/assets ratio, including minority share of equity, is at 63.6% which is considered to be satisfactory.

Liquidity management

Cash flow forecasting is performed by the operating entities of the Group and is aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs and borrowing commitments. Such forecasting takes into consideration the Group's planned debt financing, covenant compliance and compliance with statutory requirements.

Surplus cash, if any, is invested in interest-bearing bank accounts or short-term interest-bearing instruments entailing no significant credit risk. Being at an early stage of development, CAG AB does not have any significant surplus cash. All working capital savings are being invested in exploration activities and further development process.

Dividend policy

The Board of Directors of Central Asia Gold believes that distribution of dividends is important and shall be aimed for in the longer term. During the start-up stage of the Group, i.e. for at least the next few financial years, priority must be given to achieving positive cash flow. In the longer term, an attractive dividend is to be distributed, taking into consideration

such factors as the financial position of the Group and investment requirements.

Tax situation

It should be noted that during the start-up stage, it is not anticipated that the Group will show significant profits. According to the Russian accounting and tax systems, each subsidiary is an individual tax payer and the tax losses of one subsidiary cannot be offset against tax profits of another subsidiary. This can result in the Group paying income tax grouping spite of it not making a profit. The current income tax rate in Russia is equivalent to 20%.

Russian gold producers are also subject to a mineral resources exploration tax of 6% on the volumes produced, multiplied by the latest sales price of gold per ounce. All Russian subsidiaries also pay other taxes, such as property tax and social security contributions.

The Group expects to pay limited amount of income tax and relatively high mineral resources exploration taxes over the next few years. Sales of gold in Russia are currently exempt from VAT. Purchases of the majority of materials and machinery, equipment and services are subject to input VAT. Consequently, CAG AB's subsidiaries in Russia usually have significant amounts of VAT refunds.

During 2010, the social security contributions were 26%. From January 1, 2011, this rate increased by 8% (from 26% to 34%). However, this tax is paid only until the accumulated salary of each employee reaches TRUR 463 (approx. TSEK 104), for salaries above this amount, a flat rate of 2% is paid for social security contribution charges.

Foreign currency translation

The functional currency of each of the Group's entities is the currency of the primary economic environment in which the entity operates. The Parent Company's functional currency is in the national currency of Sweden ("SEK"), and the subsidiaries' functional currency is the national currency of the Russian Federation, Russian Roubles ("RUR").

The Group's revenue is mainly denominated in US dollars ("USD"), as the international gold price is expressed in USD. The Russian gold price is, then, derived by translating the global gold price into

RUR. A significant strengthening of the RUR against the USD is, therefore, negative for the CAG AB Group. However, since the Group reports costs and revenues in SEK, it may also be affected by the RUR's movement against the SEK. In the second quarter of 2010, the USD fluctuated significantly from USD/RUR 28.9 to USD/RUR 31.8. Later during the year, RUR gained against the USD and reached almost the same level at the end of December as the rate had been on January 1, 2010. The SEK weakened significantly against RUR at the end of the second quarter 2010, but then, strengthened by the end of the year. In general, the Group's surplus liquidity, if any, is held in RUR and in SEK.

Related party transactions

In the normal course of business, the CAG Group enters into transactions with its related parties. These transactions are based on the arm's length principle. The basis for assessment in this context is the pricing of similar types of transactions with third parties, and an analysis of effective interest rates.

Gold price hedging

Gold is a global natural resource (commodity). Historically, there have been major fluctuations in the global market price of gold. In recent years, the price has increased considerably.

The market price of gold is one of the most significant factors in determining the profitability of CAG AB. During 2010, the global gold price experienced high volatility with the lowest level of USD 1,120 in January 2010 and the highest of USD 1,450 per troy ounce in December 2010.

For the entire year 2010, the gold price increased by 19.5 per cent compared to 2009.

Development of the gold price will have a direct effect on CAG AB's financial situation. There is no guarantee that the gold price will not fall in the future. If the gold price falls, this will have a negative effect on the CAG AB Group's financial position.

As a rule, Central Asia Gold refrains from hedging its own gold production via the options and futures markets. Hedging may, however, occasionally be stipulated as a requirement by lending banks. In 2010, none of the creditor banks has required gold price hedging.

Planning ahead

Central Asia Gold estimates that the production of gold from the Group's various production units in 2011 will be in the range of 1,400–1,600 kg. The production estimation is somewhat lower from what was forecasted before, due to delays in the commissioning of the Tardan Heap Leaching plant.

Financial situation and going concern

As of December 31, 2010, the Board of Directors considers CAG to have sufficient working capital for the financing of the business operations during the next twelve months and the intention is to continue the normal course of the Groups business. The Board of CAG takes into consideration the following factors in its financial planning: existing cash assets, cash flow from the subsidiaries' gold sales, as well as existing loans and the prospect of secured credit commitments from various commercial banks. The Board is working ac-

tively with the question of the long term financing for the Company.

Guidelines on remuneration to the company management in the CAG group

During the Annual General Meeting on June 28, 2010, the guidelines for remuneration to Company management were approved.

The remuneration to the Group's management, according to the guidelines, may be comprised of the following compounds: (i) fixed salary, (ii) variable pay, (iii) long-term incentives and (iv) insurable benefits. The variable salary shall be related to the Company's return on production, reserves and production goals, and specific goals within each executive's area of responsibility. Variable salary shall be paid annually and shall be equal a maximum of two annual base salaries. The Board of Directors is entitled to deviate from these guidelines if, in individual cases, there is a special reason to do so. During 2010, no deviations from the guidelines have been made.

Proposal for guidelines on remuneration to the Company management of the CAG group

The Board proposes that the Annual General Meeting approve, on May 31, 2011, the guidelines for remuneration to senior executives in the CAG Group according, primarily, to the following:

It is proposed to approve the unchanged principles for remuneration to Company management, except for the maximum level of variable salary. The Board of Directors proposes to change the level of the maximum variable salary from two annual base salaries to one.

Corporate governance report

Corporate governance concerns the regulations and structure existing to govern and manage a company in an effective and controlled manner. Corporate governance is primarily aimed at meeting the shareholders' requirements with regard to returns on their investment and to provide all interested parties with comprehensive and correct information about the company and its development. The governance of Central Asia Gold AB (publ), referred to below as Central Asia Gold, CAG or the Company, is based on the Swedish Companies Act, the Swedish Corporate Governance Code, the Articles of Association and other applicable laws and rules. Central Asia Gold AB (publ) is a Swedish public limited company with its registered office in Stockholm, Sweden. CAG is a Swedish mining company with business operations in eastern Siberia, Russia. Central Asia Gold AB was formed in 2004 and listed on the NGM Equity, Nordic Growth Market on March 29, 2005. Since July 19, 2010 the CAG AB share is listed at the Swedish stock exchange NASDAQ OMX First North. The shares are traded under the abbreviation, "CAG". CAG has applied the Swedish Corporate Governance Code (the Code) since July 1, 2008, except for the deviations detailed below. The Code is based on the principle of "follow or explain," which concept implies that companies applying the Code can deviate from specific rules, but they must provide an explanation for such deviation.

Governance, management and control responsibilities for CAG are divided between the shareholders at the AGM, the Board of Directors and the Chief Executive Officer.

Annual General Meeting of the Shareholders

The shareholders' right to decide on CAG's business is exercised at the AGM, which is a company's highest decision-making body.

2010 AGM

CAG's 2010 AGM was held on Monday, June 28, 2010 in Stockholm. The minutes from this meeting are available on www.centralasiagold.se.

The following principal resolutions were adopted:

- Discharge from liability for the previous financial year was granted in respect of the Directors Lars Guldstrand,

Patric Perenius, Mike Nunn and Alice Volgina. Discharge for the previous financial year was not granted in respect of the Director Maxim Kondratyukin and the Director and Chief Executive Officer, Preston Haskell, as regards both his role as a Director and as Chief Executive Officer.

- The number of members of the Board for 2010 was determined at 5, without deputies.
- The following members were re-elected to the 2010 Board: Preston Haskell, Lars Guldstrand, Mike Nunn, Patric Perenius and Alice Volgina.
- Lars Guldstrand was re-elected as Chairman of the Board.
- The Board fees were established for Patric Perenius and Mike Nunn at TSEK 40 each. The other three Board members will receive no compensation.
- Remuneration to the Company's auditor is paid according to the invoiced amount according to agreement.
- The AGM approved the shareholders' proposal for the establishment of principles for appointing the Nomination Committee.
- The AGM approved the Board's proposal for guidelines for the remuneration of senior executives.
- The AGM resolved, in accordance with the Board's proposal, to issue 10,650,000 warrants, with deviation from the shareholders' preferential rights, to the subsidiary LLC Tardan Gold, for further transfer to a limited number of the Group's employees.
- The AGM resolved, in accordance with the Board's proposal, to increase the share capital of the Company, on the basis of the rights issue with preferential right for existing shareholders, by a maximum of SEK 158,878,125 up to a total of 141,225,000 shares.
- The AGM resolved to authorise the Board, provided that the offer is fully subscribed, for the period until August 31, 2010, to issue, with deviation from the shareholders' preferential rights, an additional maximum 25,000,000 shares in case the offer is over subscribed. Furthermore, it was resolved to authorise the Board to determine on the rights issue with deviation from the shareholders preferential right, in order to allow for strategic acquisitions and pay for the fees charged by the underwriters of the rights issue.

2011 AGM

The Annual General Meeting of the Shareholders will be held on Tuesday May 31, 2011 at Näringslivets Hus, Storgatan 19, Stockholm. The AGM will start at 3:00 pm, and the doors will be open at 2:30 pm. The annual report for 2010 will be available on the Company's website as of May 11, 2011.

Nomination Committee

The principles for the appointment of the Nomination Committee were approved by the AGM of June 28, 2010.

The principal owners propose that the AGM establish the following principles: The Company shall have a Nomination Committee comprised of the Chairman of the Board and four other members representing each of the four owners holding the largest number of voting rights. Those shareholders with the largest number of voting rights will be contacted on the basis of the Company's record – provided by the Swedish Central Securities Depository – of registered shareholders (by owner group) as at October 31, 2009. Those shareholders who are not registered with the Swedish Central Securities Depository, and who wish to exercise their voting rights, should apply to the Chairman of the Board and must be able to evidence ownership of shares. At the earliest convenient date after the end of October the Chairman of the Board shall contact the four shareholders with the largest number of voting rights, as determined above, and will request that they each appoint a member to the Committee. If any of the shareholders decline their right to appoint a member to the Nomination Committee, the shareholder with the next most voting rights shall be provided with the opportunity to appoint a member. The names of the owner representatives and the names of the shareholders they represent shall be made public no less than six months prior to the AGM. The Nomination Committee's mandate continues until a new Nomination Committee is appointed. The Chairman of the Nomination Committee shall, unless the members agree otherwise, be the member representing the largest shareholder. If a member resigns from the Nomination Committee prior to the work for that mandate being completed, and if the Nomination Committee deems that it is necessary to replace this member, then the Nomination Committee shall appoint a new member. No fees shall be paid to the

members of the Nomination Committee. The Nomination Committee may charge fair and reasonable expenses for travel and for reporting to the Company.

The Nomination Committee shall present proposals to the AGM for: (i) the election of AGM Chairman; (ii) the number of members of the Board; (iii) the election of the Chairman of the Board and other Board members; (iv) the Board's fees, allocated between the Chairman and other members; (v) any remuneration for committee work; and (vi) the election and payment of auditors and alternate auditors (where applicable). In addition, the Nomination Committee shall make proposals for decisions about principles for establishing a new Nomination Committee.

The names of the owner representatives shall be published on the Company's website at the earliest convenience after the appointment. Proposals may be sent to valberedning@centralasiagold.se or sent by post to Central Asia Gold AB at: Nomination Committee, Engelbrektsplan 2, 4 fl, 114 34 Stockholm. The election committee up to the 2011 AGM has consisted of: Lars Guldstrand, Tom Baring representing Bertil Holdings Ltd, Thomas Falck representing Ellge Kapital i Stockholm AB, Martin Diggle representing Artradis Fund Management PTE Ltd, and Mats Löfgren representing Commodity Quest AB.

Board of Directors

In accordance with the Swedish Companies Act, the Board of Directors is responsible for the organisation of the Company and the administration of the Company's business, and shall continually assess the Company's and Group's financial situation. The Board of Directors deals with issues of material significance, such as business plans including profitability targets, budgets, interim reports and annual reports, the acquisition or sale of companies, significant property acquisitions or sales, the establishment of important policies, the structure of internal control systems, and significant organisational changes.

The Board's procedural rules and written instructions regarding financial reporting and the division of work between the Board and the Chief Executive Officer.

Each year, CAG's Board establishes procedural rules and written instructions regarding financial reporting and the division of

work between the Board and the Chief Executive Officer. The procedural rules regulate, among other things, the Board's duties, the minimum number of Board meetings each year, the manner in which meetings are to be notified and the documents required to be distributed before Board meetings and the manner in which the minutes of Board meetings are to be drawn up. The written instructions regarding financial reporting regulate the reporting system in place as the Board needs to be able to continually assess the Company and Group's financial position, as well as the division of work between the Board and the Chief Executive Officer.

Chairman of the Board of Directors

During 2010, Central Asia Gold's Chairman of the Board led the Board's work and ensured that the Board fulfilled its duties. The Chairman of the Board has continually followed the Group's business and development through contact with the Chief Executive Officer and through his own frequent meetings or discussions with the heads of the subsidiaries.

Members of the Board of Directors

At year-end 2010, Central Asia Gold's Board was comprised of five members elected by the AGM. The Chief Executive Officer is a member of the Board of Directors. The members of the Board are presented in more detail further on in this report, together with details of the members' independence vis á vis the Company and its management.

The Board's work in 2010

During 2010, the Board held 37 meetings, 29 of which were by correspondence and 3 were held by telephone. The 5 other meetings were physical meetings.

The important issues dealt with by the Board in 2010, in addition to the approval of the annual report and the interim reports, establishing a business plan and the related budgets, were as follows:

- The Company's financial position and liquidity
- Strategic decision-making
- Cooperation with Centerra Gold Inc.
- Reorganisation of management team

Board members' attendance at Board meetings

Name	Position	Present
Lars Guldstrand	Chairman of the Board	37/37
Preston Haskell	Member	37/37
Patric Perenius	Member	37/37
Alice Volgina	Member	29/37
Mike Nunn	Member	27/37

Board's division of work

There was no verbal or written division of work for the members of the Board during the 2010 financial year.

Board committees

CAG's Board of Directors chose not to establish any special audit or remuneration committees in 2010. The Board found it more appropriate to allow the Board to perform the tasks of the committees with regard to remuneration and audit-related issues. These issues have been dealt with along with the ordinary Board work.

Board fees

The Board of Directors' fees are decided by the AGM. At the AGM on June 28, 2010 it was decided to determine the Board fees for Patric Perenius and Mike Nunn at TSEK 40 each. No compensation shall be paid to the other Board members.

Chief Executive Officer and other senior executives

The Chief Executive Officer, who is also the Head of the Group, is responsible for the ongoing management of the Company. The Board's written instructions stipulate the division of work between the Board and the Chief Executive Officer. The CEO's work is evaluated once a year, at latest at the Board meeting in November 2010. Preston Haskell is Chief Executive Officer and Head of Group for Central Asia Gold since September 2009.

Remuneration of Executive Management

For information regarding the remuneration policy and the remuneration of the Chief Executive Officer, senior executives and other employees, please see Note 2 in the annual report for 2010.

Auditor

The AGM appoints an auditor of the Company once every four years. The auditor's task is to examine the Company's annual financial statements and accounts, as well as the management by the Board and

the Chief Executive Officer. The AGM of June 12, 2008 appointed, for a period of four years (until the 2012 AGM), Authorised Public Accountant Johan Arpe of PricewaterhouseCoopers. As Johan Arpe chose to resign from his assignment, Martin Johansson was chosen to serve as Auditor in Charge for the remaining period. The audit is conducted in accordance with generally accepted auditing standards in Sweden. The audit of the annual accounts during the period January to April. The process is initiated, however, when the examination of the nine-month accounts is initiated in October of the financial year in question. The 9 months interim report was subject to review during the financial year.

The Board's description of internal control of financial reporting

Internal control is often defined as a process that is influenced by the Board, the Company management and other staff, and which is developed to provide reasonable assurance that the Company's targets are being met in terms of the business operations being both appropriate to the goals of the company and being efficient. Reasonable assurance is also to be provided as regards the reliability of the financial reporting and compliance with relevant laws and regulations. Internal control consists of various aspects: control environment, risk assessment, control activities, information and communication, as well as monitoring.

Control environment

Internal control is underpinned by the control environment, which comprises the culture communicated by the Board and Company management and according to which they operate, and that provides the discipline and structure for the other aspects of internal control. The control environment primarily consists of the organisational structure, the assignment of responsibility and powers, management philosophy, ethical values, staff competence, policies and guidelines, as well as routines. In addition to the relevant legislation, the framework within which Central Asia Gold's Board works is comprised of the owners' aims and the Swedish Corporate Governance Code. The formal decision-making procedure is based on the division of responsibility between the Board and the CEO which the Board establishes each year on the basis of written instructions. The Board has established procedures for its work. The CEO is able

to delegate a degree of decision-making to other senior executives. Two members of the Board have the authority to sign on behalf of the Company

Risk assessment

All business operations involve risk. A structured risk assessment makes it possible to identify the material risks having an effect on internal control with regard to financial reporting and where these risks exist within the organisation. CAG's Board continually assesses the Company's risk management. This work consists in assessing the preventative measures which need to be taken to reduce the Company's risks, which involves, for example, ensuring that the Company has appropriate insurance and that the Company has the necessary policies and guidelines in place. These annual financial statements describe the Board's review and assessment of risk factors under the heading Significant Risks and Points of Uncertainty.

Control activities

Control measures are required to prevent, detect and correct errors and discrepancies. Each quarter, CAG's Finance Department compiles financial reports providing details of earnings and cash flow for the most recent accounting period at subsidiary and Group level. Deviations from budget and forecasts are analyzed and commented on. Documented processes exist for the compiling of the information on which the financial reports are based.

Information and communication

Central Asia Gold has an information policy, comprising guidelines for both internal and external information from the Company. External information is provided in accordance with financial markets and securities legislation, other relevant laws and regulations, the regulations of the Swedish Financial Supervisory Authority and the stock market listing agreement NASDAQ OMX First North. The Company provides the market with information on an on-going basis concerning important events within the Group, including its financial position. Information is provided in the form of interim and annual financial statements. In addition, press releases are issued concerning news and events that are deemed to comprise price-sensitive information. All financial information and other press releases are published via GlobeNewswire to recipients within the financial and daily press, news agencies,

analysts and to the Company's website. Information relevant to CAG's employees is distributed by e-mail. Internal dissemination of price-sensitive information is first carried out after Central Asia Gold has provided the stock market with the information. In addition, all managers are responsible for providing their co-workers with information that is to be distributed within the organisation.

Monitoring

Financial monitoring is carried out on a quarterly basis for all profit centres and at Group level. In addition, Group management receives operational reports on a weekly and monthly basis. Monitoring is, then, carried out in comparison with budgets. CAG is a mining company that is in its early stages, which is why no earnings or sales forecasts are currently provided externally. Instead, the financial report in February of each year stipulates targets for the expected volume of gold production for the full year. These targets are subsequently revised as often as is deemed necessary. As the gold production is currently highly seasonal, this usually occurs, at the earliest, in the summer months when production has begun in earnest.

The Board continuously evaluates the information provided by Company management. Each month the COO reports to the Board on the Company's performance with regard to the targets in the Business Plan. The Company has chosen not to establish a separate internal audit unit. Given its size, the Company finds that it is not viable to have a separate internal audit unit. However, if the Board finds it appropriate, internal control will be further expanded. The issue of internal control and a separate internal audit unit is annually reviewed by the Board and will be discussed again in 2011.

Members of the Board during the 2010 financial year

Lars Guldstrand (born 1957)

Chairman of the Board, elected 2009.

Lars Guldstrand is a Swedish citizen, born 1957, with more than 25 years' experience in international leadership and investment in the telecom, media and technology sectors. He has also worked with corporate turnarounds and reorganisations, and M&A activities in a number of other areas, including the finance and Internet sectors.

During his career Lars Guldstrand has held leading positions in a number of privately-owned and publicly listed companies in Europe and the U.S., including Eniro AB. Lars Guldstrand is a Partner and Chairman in GKL Growth Capital AB, Eco Energy, Scandinavia Centum Finance Services International AB, KMW Energi AB and G-Life AB.

He is also a member of the Board of Lox-system AB and Amari Resources Ltd. Lars Guldstrand holds an MBA from California Coast University, California in the U.S.

Shares in Central Asia Gold: 370,287 via a company

Warrants in Central Asia Gold: 0

Independent as regards the Company and the Company management as defined by the Swedish Code of Corporate Governance: **No**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **No**

Preston Haskell

(see under Group Management)

Independent as regards the Company and the Company Management as defined by the Swedish Code of Corporate Governance: **No**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **No**

Alice Volgina (born 1966)

Board member, elected 2009.

Alice Volgina is a Russian citizen, born 1966. Alice has a degree in English translation from Moscow's State University of Linguistics. Since 1999 she has been a partner in and CFO of Preston Haskell's Colliers International investment group. Between 1996–1999 Alice worked as Vice President of HIB Limited and in 1988–1996 she worked in customs at Moscow's Sheremetyevo Airport.

Shares in Central Asia Gold: 0

Warrants in Central Asia Gold: 0

Independent as regards the Company and the Company management as defined by the Swedish Code of Corporate Governance: **Yes**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **No**

Mike Nunn (born 1959)

Board member, elected 2009

Mike Nunn, a South African mining entrepreneur born in 1959, is the founder of Amari Holdings, a business that drew on his experience and success in the commodities industry and on his African business network.

Mike Nunn is a global pioneer within the Tanzanite segment. Tanzanite is a gemstone. As founder and former CEO of TanzaniteOne Ltd (listed on London's AIM) he developed a local operation into one of the world's foremost producers of and market leaders for tanzanite. Nunn also founded the Tanzanite Foundation, an industry organisation that oversees the global marketing of tanzanite.

Among his other mineral-related activities, Nunn was involved in turning around MDM, a long-established mining engineering company that has since become a leading African mining consulting company whose shares were listed on the AIM in 2008.

In 2005, Nunn founded Xceldiam Ltd, an Angolan diamond prospecting company that was successfully floated on the AIM in 2006 and was later sold to Petra Diamonds.

Nunn consolidated a portion of his mining interests in mid-2006 and created AMARI, an Africa-focused mining and mineral resources investment company with interests in gold, platinum, uranium, manganese, nickel, coal and iron ore.

Nunn is currently the Working Chairman of AMARI and is based in Johannesburg, South Africa.

Shares in Central Asia Gold: 0

Warrants in Central Asia Gold: 0

Independent as regards the Company and the Company management as defined by

the Swedish Code of Corporate Governance: **Yes**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **Yes**

Patric Perenius (born 1951)

Board member, elected 2004

Patric Perenius is a Swedish citizen, born 1951. Patric graduated in 1977 with an M.Sc in mining from the Royal Institute of Technology in Stockholm. After working with oil exploration with Swedish Petroleum Exploration and Norsk Hydro, Patric participated as founder of several oil and mineral exploration companies, such as Secab, Tricorona, Aurex, Gexco, Yield Archelon and Svenska Capital Oil and Geotermica. In addition to Central Asia Gold, Patric Perenius is also member of the boards of Archelon Mineral, Commodity Quest, Nordic Iron Ore and Geotermica.

Shares in Central Asia Gold: 48,130

Warrants in Central Asia Gold: 0

Independent as regards the Company and the Company management as defined by the Swedish Code of Corporate Governance: **Yes**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **Yes**

All Board members, except for Patric Perenius, were elected at the Extraordinary General Meeting March 12, 2009, in connection with the merger with New Mining Company.

Group management

Preston Haskell (born 1966)

Chief Executive Officer, Head of Group, and Board member of Central Asia Gold AB from 2009.

Preston Haskell is U.S. citizen, born 1966, and has been active as a businessman in Russia since the early 1990s.

Haskell is also a member of the Board of Fleming Family and Partners Real Estate Development Fund Ltd.

Preston Haskell has a Degree in Economics from the University of Southern California in the U.S.

Shares in Central Asia Gold: 10,111,500 via company

Warrants in Central Asia Gold: 1,872,500 via company

All of the CEO's significant assignments outside the company are approved by the Board.

Pavel Olishevsky
Chief Operating Officer (COO)

Pavel is a Russian citizen born 1973. Pavel has a Masters Degree in Chemistry from Georgetown University in Washington, DC, and is a qualified Chartered Financial Analyst (CFA) with extensive experience in the mining sector, most recently responsible for the construction of a mining operation in fluorite mining.

Shares in Central Asia Gold: 0

Warrants in Central Asia Gold: 0

Stefan Egerstad
Financial Officer (CFO)

Stefan is a Swedish citizen born in 1969. Stefan has an MBA and has a broad experience from senior positions in business, with a special focus on Russia. Previously, he was CFO at Zodiak Television AB in Sweden, CEO of MEGA Belaya Dacha OOO in Russia, CFO and Vice President of Bonny Allied Industries Ltd in Nigeria and authorised public accountant working at PwC in Sweden. The company has concluded an employment agreement with Stefan Egerstad. It is planned that he starts his employment in spring 2011.

Shares in Central Asia Gold: 0

Warrants in Central Asia Gold: 0

Long-term incentive programs

The Board regularly evaluates the need for long-term incentive programs. Currently there are no outstanding warrants in the Company. According to the resolution adopted by the Annual Shareholders Meeting on June 28, 2010, a total of 10,650,000 warrants, entitling 1,006,500

shares have been issued to the subsidiary Tardan Gold. The warrants will comprise an incentive program for key personnel.

Deviations from the Swedish Code of Corporate Governance

Central Asia Gold AB chooses to deviate from the Code as regards the following points:

- The entire Board of Directors performs the duties of the audit and compensation committees. Given the clear ownership structure, Preston Haskell, CEO and majority shareholder participates in the work of these committees.
- In 2010, the Board did not have any meetings with the auditor without the CEO and other members of management attending the meeting. The Board's opinion in this case was that the questions were of a nature that were considered appropriate and effective to let the CEO and senior management participate in meetings with the auditor.

Significant events after the reporting period

Artelj Lena LLC

The Board made a decision to investigate strategic value realisation scenarios for Artelj Lena LLC given historic underproduction and the high cash cost of mining in the project and various exit options have been evaluated. A partnership agreement between the specialised alluvial mining company, LLC Sibirskoe Zoloto, and LLC Artelj Lena was signed in February 2011. According to the agreement, the partner has guaranteed a RUR 150 million line of credit to LLC Artel Lena, part of which will be used for equipment renewal and exploration in 2011. According to the agreement, the partner will be responsible for mining operations and cover production costs in 2011, in exchange for 85% of Lena's revenue.

A share purchase agreement for 3% of the shares in LLC Artel Lena was signed between Lena Gold LLC and LLC Tardan Gold in August 2010. In March 2011, LLC Tardan Gold repurchased the 3% of shares in LLC Artel Lena sold in 2010, for the same amount as it was sold in 2010.

A share purchase agreement for 30% of the shares in LLC Artelj Lena for a purchase price of MRUR 30 has been signed

between LLC Tardan Gold and LLC Sibirskoe Zoloto in April 2011.

Credit line from related party

In April 2011, a Golden Impala Ltd., a company controlled by the largest shareholder, Preston Haskell, launched a credit line of up to MUS\$ 3,6 with an annual interest rate of 16% to CAG AB. The purpose of the credit line facility was to meet short term requirements of CAG AB. The maturity date of the credit facility is September 2012.

Parent company

The Parent Company is a holding company without significant operational activities. The Parent Company supports the subsidiaries with financing, investor relations and strategic decisions, etc. and has no revenue other than other operating income and interest on loans to the subsidiaries and on bank accounts.

Other operating income of the Parent Company during 2010 amounted to TSEK 13,441 (0) mainly comprised of the profits of the sold subsidiary LLC Kara Beldyr of TSEK 7,762 and a VAT refund of TSEK 5,009. Operating expenses amounted to TSEK 7,951 (10,641). Net income amounted to TSEK -10,187 (-12,281).

The Parent Company invested a total of TSEK 198,447 in its subsidiaries (investments and loans granted) during the year (41,795). Cash flow from share issuances and loans taken during the year amounted to TSEK 196,928 (43,214). Cash at the end of the reporting period amounted to TSEK 10,945 (14,794).

Proposal for profit distribution

The Group's equity at year-end 2010 amounted to TSEK 405,511, where of the share capital is TSEK 180,191.

In the Parent Company the shareholders unrestricted equity amounts to:

	SEK
Share premium reserve	568,685,251
Retained earnings	-68,917,598
Net income for the year	-10,186,885
Total unrestricted equity	489,580,768

The Board of Directors and the Chief Executive Officer propose that the Parent Company's accumulated losses be carried forward and that no dividend be paid for the financial year.



Consolidated income statement

(all amounts in TSEK)	Note	2010-01-01 – 2010-12-31	2009-01-01 – 2009-12-31
			Restated*
Income			
Revenue from sales of gold		214,037	155,800
Capitalised work for own account	8	18,153	10,750
Change in work in progress and finished goods		15,097	3,099
Other operating income	1	35,838	1,649
Dissolution of negative goodwill	21	–	195,396
		283,125	366,694
Operating costs			
External expenses	2	-153 634	-120,035
Employee benefit expenses	3	-72,403	-55,745
Depreciation and amortisation of tangible and intangible assets	4	-23,309	-22,812
Impairment of intangible assets	4	–	-392
		-249 346	-198,984
Operating profit		33,779	167,710
Financial income	5	1,280	1,281
Financial expenses	6	-17,951	-24,765
Profit before income tax		17,108	144,226
Income tax	7	-9,420	2,707
Net profit for the year		7,688	146,933
Of which attributable to:			
owners of the parent		7,964	146,857
Non-controlling interest	28	-276	76
Earnings per share before dilution, SEK	18	1.58	85.37
Earnings per share after dilution, SEK		1.58	85.37
Number of shares at the end of the financial year		16,016,987	1,765,313
Average number of shares outstanding during the financial year		5,026,107	1,720,246
Average number of shares outstanding for the year after dilution		5,026,107	1,720,246

* Restated in accordance with note 29.

Consolidated statement of comprehensive income

(all amounts in TSEK)	Note	2010-01-01 – 2010-12-31	2009-01-01 – 2009-12-31
			Restated*
Net income for the year		7,688	146,933
Other comprehensive income			
Translation differences		-16,320	3,612
Total comprehensive income for the year		-8,632	150,545
Total comprehensive income for the year attributable to:			
Owners of the parent		-8,356	150,469
Non-controlling interest		-276	76

* Restated in accordance with note 29.

Consolidated balance sheet

(all amounts in TSEK)	Note	2010-01-01 – 2010-12-31	2009-01-01 – 2009-12-31
			Restated*
NON-CURRENT ASSETS			
Intangible fixed assets			
Mining permits and capitalised exploration costs	8	154,301	149,218
Tangible fixed assets			
Buildings and land	9	28,278	38,583
Machinery, equipment and other technical plants	10	61,687	58,125
Construction in progress	11	53,122	4,649
		143,087	101,357
Investments in joint ventures	13	19,165	–
Long-term loans receivable	13	5,602	484
Deferred income tax assets	7	36,171	37,117
Total non-current assets		358,326	288,176
CURRENT ASSETS			
Inventories	16	167,772	90,070
Accounts receivable		2,467	2,480
Loans receivable		556	1,468
Other current receivables	17	53,111	36,795
Prepaid expenses	17	33,026	4,086
Cash and cash equivalents	22	22,230	22,732
Total current assets		279,162	157,631
TOTAL ASSETS		637,488	445,807
EQUITY AND LIABILITIES			
EQUITY	18		
Share capital		180,191	176,531
Additional paid in capital		143,705	-66,031
Translation difference reserve		-11,404	4,915
Retained earnings		91,614	83,649
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		404,106	199,064
Non-controlling interest	28	1,405	1,681
TOTAL EQUITY		405,511	200,745
NON-CURRENT LIABILITIES			
Deferred income tax liability	7	45,570	39,933
Provisions	19	5,599	5,228
Long-term loans	20	10,113	91,682
Other long-term liabilities		–	4,051
Total non-current liabilities		61,282	140,894
CURRENT LIABILITIES			
Accounts payable		31,041	21,080
Current income tax liabilities		12,335	9,964
Short-term loans	20	113,535	62,067
Other current liabilities		6,135	2,036
Accrued expenses	24	7,649	9,021
Total current liabilities		170,695	104,168
TOTAL EQUITY AND LIABILITIES		637,488	445,807
PLEGDED ASSETS	27		
Bank accounts		50	50
Fixed assets		53,336	7,381
CONTINGENT LIABILITIES	27	31 436	none

* Restated in accordance with note 29.

Consolidated statement of changes in equity

(All figures in TSEK)	Note	Attributable to the shareholders of the parent				Non-controlling interest	Total equity
		Share capital	Additional paid in capital	Translation difference reserve	Retained earnings		
Equity as of 1 January 2009		106,125	-104,497	1,303	-63,208		-60,277
Net income for the year*					146,857	76	146,933
Translation differences				3,612			3,612
Total comprehensive income*, gross				3,612	146,857	76	150,545
Equity contribution			70,036				70,036
Shares issued for the acquisition of the CAG group		70,406	-31,570			1,605	40,441
Equity as of 31 December 2009*		176,531	-66,031	4,915	83,649	1,681	200,745
Net income for the year					7,964	-276	7,688
Translation differences				-16,319			-16,319
Total comprehensive income, gross				-16,319	7,964	-276	-8,632
Reduction of share capital	18	-156,671	156,671				—
Proceeds from rights issue	18	160,331	67,829				228,160
Costs for rights issue			-14,764				-14,764
Equity as of 31 December 2010		180,191	143,705	-11,404	91,614	1,405	405,511

* Restated in accordance with note 29.

Consolidated cash flow statement

(all amounts in TSEK)	Note	2010-01-01 – 2010-12-31	2009-01-01 – 2009-12-31
			Restated*
Cash flows from operating activities			
Operating profit		33,779	167,710
Adjustment for non-cash items	23	-6,391	-172,584
Interest paid		-10,894	-1,964
Paid income tax		–	-328
Cash flow from operations before changes in working capital		16,494	-7,166
Changes in working capital			
Change in inventory		-77,702	10,789
Change in current receivables		-45,243	34,459
Change in current liabilities		9,598	-33,512
Total change in working capital		-113,347	11,736
Net cash used in operating activities		-96,853	4,570
Cash flows from investing activities			
Proceeds from sale of subsidiaries		14,091	–
Investment in intangible assets	8	-18,153	-10,750
Investment in tangible assets	9-11	-88,232	-80
Investment in subsidiaries		–	7,885
Interest received		–	16
Loans granted		-5,881	-6,070
Loan repayment		2,955	264
Net cash used in investing activities		-95,220	-8,735
Cash flows from financing activities			
Proceeds from borrowings		170,129	55,690
Repayments of borrowings		-65,968	-28,862
Proceeds from rights issue		86,803	–
Net cash generated from financing activities		191,234	26,828
Net change in cash		-839	22,663
Cash at the beginning of the period	22	22,732	144
Translation difference in cash	22	337	-75
Cash at the end of the period	22	22,230	22,732

* Restated in accordance with note 29.

Parent company income statement

(all amounts in TSEK)	Note	2010-01-01 – 2010-12-31	2009-01-01 – 2009-12-31
Income			
Other operating income	1	13,441	–
Operating costs			
External expenses	2	-7,009	-9,277
Employee benefit expenses	3	-942	-970
Depreciation of tangible fixed assets	4	–	-2
Write down of licences	4	–	-392
Operating income		5,490	-10,641
Financial income	5	28,587	13,529
Financial expenses	6	-43,738	-15,169
Result after financial items		-9 661	-12,281
Income tax	7	-526	–
Net income for the year		-10,187	-12,281
Earnings per share before dilution, SEK		2.03	-7.14
Earnings per share after dilution, SEK		2.03	-7.14
Number of shares at the end of the financial year		16,016,987	1,765,313
Average number of shares outstanding during the financial year		5,026,107	1,720,246
Average number of shares outstanding during the financial year after dilution		5,026,107	1,720,246

Parent Company statement of comprehensive income

(all amounts in TSEK)	Note	2010-01-01 – 2010-12-31	2009-01-01 – 2009-12-31
Net income for the year		-10,187	-12,281
Other comprehensive income		–	–
Total comprehensive income for the year		-10,187	-12,281

Parent company balance sheet

(all amounts in TSEK)	Note	2010-01-01 – 2010-12-31	2009-01-01 – 2009-12-31
NON-CURRENT ASSETS			
Financial assets			
Investments in subsidiaries	12,14	443,993	429,915
Investments in joint ventures	13,14	11,438	–
Loans to subsidiaries	15	274,563	89,085
Loans to joint ventures	13	5,487	–
Total non-current assets		735,481	519,000
CURRENT ASSETS			
Other current receivables	17	574	657
Prepaid expenses	17	64	84
Cash and cash equivalents	22	10,945	14,794
Total current assets		11,583	15,535
TOTAL ASSETS		747,064	534,535
EQUITY AND LIABILITIES			
EQUITY			
	18		
Restricted equity			
Share capital		180,191	176,531
Statutory reserve		68,032	68,033
Total restricted equity		248,223	244,564
Unrestricted equity			
Share premium reserve		568,685	313,198
Retained earnings		-68,917	-56,637
Net result for the year		-10,187	-12,281
Total unrestricted equity		489,581	244,280
TOTAL EQUITY		737,804	488,844
NON-CURRENT LIABILITIES			
Long-term loans	20	6,398	14,802
Total non-current liabilities		6,398	14,802
CURRENT LIABILITIES			
Accounts payable to suppliers		2,070	344
Short-term loans	20	–	29,982
Tax liability		15	36
Other short-term liabilities		672	314
Accrued expenses	24	105	213
Total current liabilities		2,862	30,889
TOTAL EQUITY AND LIABILITIES		747,064	534,535
PLEDGED ASSETS			
Bank accounts	27	50	50
CONTINGENT LIABILITIES	27	None	None

Parent company's statement of changes in equity

(All figures in TSEK)	Note	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Net income for the year	Total equity
Equity as of 1 January 2009		106,125	68,032	204,375	-27,690	-28,947	321,895
Profit/loss brought forward					-28,947	28,947	
Total comprehensive income for the year						-12,280	-12,280
Reduction of quotient value		-79,594		79,594			
Proceeds from new share issue		150,000		30,000			180,000
Costs of new share issue				-771			-771
Equity as of 31 December 2009		176,531	68,032	313,198	-56,637	-12,280	488,844
Equity as of 1 January 2010		176,531	68,032	313,198	-56,637	-12,280	488,844
Profit/loss brought forward					-12,280	12,280	
Total comprehensive income for the year						-10,187	-10,187
Reduction of share capital	18	-156,671		156,671			
Proceeds from right issue	18	160,331		67,829			228,160
Costs for right issue				-14,764			-14,764
Shareholders contribution				45,751			45,751
Equity as of 31 December 2010		180,191	68,032	568,685	-68,917	-10,187	737,804

The parent company's cash flow statement

(all amounts in TSEK)	Note	2010-01-01 – 2010-12-31	2009-01-01 – 2009-12-31
Cash flows from operating activities			
Operating income		5,490	-12,281
Adjustment for non-cash items	23	-8,392	2
Paid interest		-2	-3,197
Cash flow from operations before changes in working capital		-2,904	-15,476
Changes in working capital			
Change in current receivables		104	-608
Change in current liabilities		1,392	-1 344
Net cash used in operating activities		-1,408	-17,428
Cash flows from investing activities			
Investment in subsidiaries	12	-8,892	–
Loans granted to subsidiaries	15	-189,555	-41,795
Interest received		130	83
Net cash used in investing activities		-198,317	-41,712
Cash flows from financing activities			
New share issue proceeds, net after issue cost		86,803	-1,570
Loans taken		110,125	44,784
Net cash generated from financing activities		196,928	43,214
Net change in cash		-2,797	-15,926
Cash at the beginning of the period	22	14,794	30,456
Translation difference in cash	22	-1,052	264
Cash at the end of the period	22	10,945	14,794

Accounting principles

General information

Central Asia Gold AB (publ) ("CAG AB", "the Parent company" or "the Company") and its subsidiaries (referred to collectively as "the Group", "CAG" or "the CAG Group") currently engages in the exploration for and production of mineral gold in different regions of the Russian Federation. The amount of gold sold during 2010 amounted to 730 kg. The Parent Company is a public limited liability company registered in and with its head office in Sweden. The address of the head office is Engelsbrektsplan 2, 4 fl, 114 34 Stockholm.

CAG AB was publicly listed on the Swedish NGM Nordic Growth Market stock exchange on 29 March 2005 and has been listed on the Swedish stock exchange NASDAQ OMX First North Premier since 19 July 2010. At present, the Company has approximately 3,800 shareholders.

The Board of directors approved these consolidated accounts for publication on 11 May 2011.

Summary of important accounting principles

The most important accounting principles applied in the preparation of these consolidated accounts are specified below.

Basis for the preparation of reports

The consolidated accounts for the Central Asia Gold Group are prepared in accordance with the Annual Accounts Act, International Financial Reporting Standards, as adopted by the EU, interpretations from International Financial Reporting Interpretations Committee, IFRIC, and the Swedish Financial Reporting Board's recommendation RFR 1 "Supplementary accounting regulations for groups".

The financial reports for 2010 have been prepared using the historical cost method.

The Parent Company applies the same accounting principles as the Group, as well as the Swedish Financial Reporting Board's recommendation RFR 2 "Accounting for legal entities".

New IFRS and interpretations

(a) New and amended standards adopted by the Group:

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates',

and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the opening date of the first annual reporting period beginning on or after 1 July 2009.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be reported in equity if there is no change in control and if these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting principles to be used on loss of controlling interest. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is reported in profit or loss.

(b) New and amended standards, and interpretations entering into force for the first time for the financial year beginning 1 January 2010, but not currently relevant to the Group:

IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in the case of a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to the hedge of a net investment are satisfied. In particular, the Group should clearly document its hedging strategy, due to the possibility of different designations existing at different levels within the Group.

IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies the principles for the measurement of the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has a similar useful economic lifetime.

IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity retains an unconditional right to defer settlement by transfer of cash or other assets for a period of at least 12 months after the end of the accounting

period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing constitutes an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted:

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for the classification and measurement of financial assets and is likely to affect the Group's reporting of its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The Group is yet to assess the full impact of IFRS 9.

IAS 24 (revised), 'Related party disclosures', issued in November 2009. This standard supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier adoption, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group and the Parent Company will be required to disclose any transactions between their subsidiaries and associates.

'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier adoption is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met,

such rights issues are now classified as equity, regardless of the currency in which the exercise price is denominated. Previously, these issues had to be reported as derivative liabilities. The amendment is applicable retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the reporting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be reported in profit or loss, which is measured as the difference between the reported value of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. This is not expected to have any impact on the Group's or the Parent Company's financial statements.

Consolidated accounts

The consolidated accounts are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all subsidiaries (including special purpose entities) over which the Group holds the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are taken into consideration when assessing whether the Group has a controlling interest in another entity.

Subsidiaries are fully consolidated from the date on which controlling interest is transferred to the Group. They are deconsolidated from the date on which such controlling interest ceases. The Group uses the acquisition method of accounting to report business combinations. The consideration transferred for the acquisition of a subsidiary is comprised of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by

the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group reports any non-controlling interest in the acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net assets. Investments in subsidiaries are reported at cost less any impairment charges. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes costs directly attributable to investment. The excess of the consideration transferred the amount of any non-controlling interest in the acquired entity and the fair value on the acquisition date of any previous equity interest in the acquired entity exceeding the fair value of the Group's share of the identifiable net assets acquired is reported as goodwill. If this amount is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. The accounting principles of subsidiaries have been changed, where necessary, to ensure consistency with the accounting principles adopted by the Group.

On 2 March 2009, as a consequence of Central Asia Gold AB's acquisition of all outstanding shares in the five companies, LLC GRE 324, LLC Solcocon, LLC Gold Borzya, LLC Borservice and LLC Rudtechnology (collectively referred to as "The NMC companies"), the former owners of these companies, Bertil Holdings Ltd and Greypson Investment Ltd, acquired the controlling interest in Central Asia Gold and the acquisition is, therefore, reported as a reverse acquisition. For the period up to 2 March 2009, the financial information presented in the consolidated income statement comprises the historical financial information for the acquired NMC companies only.

The NMC companies have not previously been presented as a stand-alone group. The

companies have been under the common control of the owners, Bertil Holdings Ltd and Greypson Investment Ltd. The consolidated accounts up to the period 2 March 2009 have, therefore, been prepared by combining the individual companies' income, expenses, assets and liabilities. All inter-company transactions and balances and any unrealised gains or losses on transactions between the Group companies have been eliminated. The accounting principles of the separate companies have been changed, where necessary, to ensure consistency with the accounting principles adopted by the Group.

Interests in joint ventures

A joint venture, or jointly controlled entity, is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, except that a contractual arrangement establishes joint control. A jointly controlled entity controls the assets of the joint venture, earns its own income and incurs its own liabilities and expenses. Interests in jointly controlled entities are reported using the equity method. Under the equity method, the investment in the joint venture is reported in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. The profit or loss reflects the Group's share of the results of the operations of the joint venture. When there has been a change reported directly in other comprehensive income or equity of the joint venture, the Group reports its share of any changes and discloses this, when applicable, in the statement of comprehensive income or the statement of changes in equity, as appropriate. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to an extent corresponding with the interest in the joint venture. The share of the joint venture's net profit/(loss) is shown in profit or loss. This is the profit/(loss) attributable to participants in the joint venture. The financial statements of the jointly controlled entity are prepared for the same reporting period as the participant. Where necessary, adjustments are made to bring the accounting principles in line with those of the Group.

Non-controlling interests

Non-controlling interests are recognised as a separate item in the Group's equity. For purchases from non-controlling interests,

the difference between any consideration paid and the relevant acquired share of the reported value of net assets of the subsidiary is reported in equity. Gains or losses on sales to non-controlling interests are also reported in equity. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to fair value, with the change in the reported value reported in profit or loss. The fair value is comprised of the initial reported value for the purposes of subsequently reporting the retained interest as an associated company, joint venture or financial asset. In addition, any amounts previously reported in other comprehensive income in respect of that entity are reported as if the Group had directly disposed of the related assets or liabilities. This may imply that amounts previously reported in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously reported in other comprehensive income are reclassified to profit or loss, where appropriate.

Translation of foreign currency *Functional currency and reporting currency*

Items that are included in the financial statements for the various entities in the Group are valued in the currency used in the economic environment in which the respective entity is primarily active (functional currency). This is currently the rouble, as almost all subsidiaries (except Awilia Enterprises Limited) are currently located in Russia and primarily use the rouble in their daily activities. The consolidated accounts are presented in SEK, which is the Swedish Parent Company's functional currency and reporting currency.

The functional currency of the subsidiaries is Russian rouble, the reporting currency is SEK. Assets and liabilities are translated from the functional currency to the reporting currency at the closing rate of 4.48051 rouble per SEK 1 (4.19983), income and expenses are translated using the average rate of 4.2242 roubles per SEK 1, (4.1682). Results are recognised as a separate component of other comprehensive income and the cumulative effect is included in other reserves in shareholders' equity.

Translation of foreign subsidiaries and other foreign operations

The earnings and the financial positions of all Group companies (none of which have a high-inflation currency) that have a different functional currency from the reporting currency are translated to the Group's reporting currency as follows:

- (a) assets and liabilities for each of the balance sheets are converted at the closing rate;
- (b) income statements for each of the subsidiaries are converted at the average exchange rate (provided that this average rate constitutes a reasonable approximation of the accumulated effect of the rates applying on the date of the transaction, otherwise assets and liabilities are converted at the rate on the date of the transaction), and
- (c) all exchange rate differences arising are shown as a separate portion of equity.

During consolidation, exchange rate differences arising as a result of the conversion of net investments in foreign operations and of borrowing are reported in equity. When disposing of a foreign company, these exchange rate differences are shown in the profit and loss account as portion of capital gains/losses.

The Group has changed the principles for the reporting of Forex gains/ losses arising on inter-company loans. As of 1 January 2010, these differences have been reported as a portion of Other comprehensive income instead of under Financial gain/ losses in the income statement. The figures for 2009 have been changed accordingly.

Goodwill and adjustments to the fair value arising upon the acquisition of a foreign company are treated as assets and liabilities attributable to this operation and are converted at the closing rate.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are valued at the exchange rate on the balance sheet date. Exchange rate differences for operational receivables and operational liabilities are included in operating income, while exchange rate differences for financial receivables and liabilities are reported in financial items. Unrealised exchange rate gains and losses relating to operational receivables and li-

abilities are reported net under other operating income/expenses.

Revenue recognition

Revenue comprises the fair value of the consideration received or to be received for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value added tax and after elimination of inter-company sales. The Group recognises revenue when the amount of income can be reliably measured and it is probable that future economic benefits will flow to the entity.

(a) Sale of gold

Revenue from the sale of gold is reported when a binding purchase agreement has been concluded and when delivery to the buyer has been completed, usually to a Russian licensed commercial bank. Reporting is preceded by the semi-finished product that the Group produces, a gold ore concentrate, being delivered to a refinery that enriches the ore concentrate into the end product, 24 carat pure gold and a certain residual amount of silver. Sales are reported gross before Mineral resources exploration tax (MRET). The MRET amounts to 6% of the produced volume of gold, multiplied by the latest sales price. The MRET is, thus, directly related to the volume of gold produced, but not to the actual volume sold. Therefore, the MRET is reported separately as a production cost among operating expenses. Sale of gold is currently not subject to value added tax in Russia.

(b) Other income

Any other income not received as in the ordinary course of the Group's activities is reported as "other operating income".

(c) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Depreciation and amortisation

Intangible fixed assets

Intangible fixed assets are subject to amortisation according to the unit of pro-

duction method. According to the unit of production method, amortisation is reported at the same rate as the production. In the case of CAG, this means that the total expected production of gold from each license object is evaluated during the licence object's expected useful economic lifetime and amortisation in each period is carried out corresponding to the period's proportional share of the total expected production. The amortisation of a license object starts when commercial production from that license object has commenced.

Tangible fixed assets

Tangible fixed assets are depreciated according to the particular asset's estimated useful lifetime. If applicable, the asset's residual value is taken into account when establishing the depreciable amount of the asset.

The straight line method of depreciation is applied for tangible fixed assets, based on the following expected useful lifetimes:

Buildings	10–60 years
Processing plants	2–10 years
Machinery	2–10 years
Computers	3 years

Impairment of non-financial assets

Intangible assets with indefinite useful lifetimes are tested for impairment annually as at 31 December, either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the reported value may be impaired. At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Each mining licence is considered to be a CGU for the Group. Where the reported value of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the

risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of at least five years. Impairment losses of continuing operations, including impairment of inventories, are reported in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued in which the revaluation was reported in other comprehensive income. In this case, the impairment is also reported in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously reported impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously reported impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was reported. The reversal is limited so that the reported value of the asset does not exceed its recoverable amount, nor exceed the reported value that would have been determined, net of depreciation, had no impairment loss been reported for the asset in prior years. Such reversal is reported in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase and is reported in other comprehensive income. Impairment losses on goodwill are never reversed.

Current and deferred income tax

The tax expense for the period includes current and deferred tax. Taxes are recognised in the income statement, except when the tax refers to items recognised in other comprehensive income or directly in equity. In such cases, the tax is also recognised in the statement of other comprehensive income or in equity.

The current tax expense is reported on the basis of the tax regulations that were determined on the balance sheet date or which, in practice, were determined in the

countries in which the Parent Company's subsidiaries and associated companies operate and generate taxable income. The management regularly assesses the applications made in income tax returns in relation to situations where applicable tax regulations are the subject of interpretation. When considered appropriate, provisions are made for amounts that are likely to be payable to the Tax Agency.

Deferred income taxes are recognised, using the liability method, on all temporary differences arising between the taxable value of assets and liabilities and their reported values in the consolidated financial statements. However, the deferred tax is not recognised if it arises as a consequence of a transaction which constitutes the initial recognition of an asset or liability which is not a business combination and which, at the date of the transaction, neither affects the recognised or the taxable result. Deferred income tax is calculated using the tax rates (and legislation) which have been determined or announced on the balance sheet date and that are expected to apply when the deferred tax asset in question is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent it is probable that future tax surpluses will be available, against which the temporary differences can be offset.

Deferred tax is reported on the basis of the temporary differences arising on participations in subsidiaries and associated companies, except when the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Intangible fixed assets

The intangible assets of Central Asia Gold Group consist of mining permits (licenses) and exploration costs. Exploration costs are reported in accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources. The Group applies the so-called Successful effort method for its exploration costs, implying that all expenses for licensing, exploration and evaluation are initially capitalised.

Licences for mining permits are initially reported at acquisition value. Such licences are acquired in Russia (the Group's only area of operation at present) usually at an

open, public licence auction, at which the winning auction price is the acquisition value.

Exploration work is reported at acquisition value and includes various activities, such as drilling of various natural areas, geochemical and magnetic surveys and analyses in laboratories. Exploration work can, in addition, include salary costs for staff that conduct the work, materials and fuel used, depreciation on machinery and equipment used and administrative expenses that are directly attributable to sites subject to exploration work. Borrowing costs directly attributable to exploration projects commencing after 1 January 2009 are included in the capitalised amount of exploration costs. During the financial year 2010, no new exploration projects have commenced.

When it has been established that there is extractable ore at an individual mining or placer property and technical possibilities and commercial potential for extraction of the ore body can be proven, the capitalised exploration costs are reported in accordance with IAS 38, Intangible assets. Costs for development of a mining property where production has commenced are capitalised if it is likely that they will produce additional performance gains in the mining property resulting in the likelihood of prospective economic benefits, which include future revenue from newly discovered gold, cost savings or other benefits resulting from the use of the asset. If this is not the case, these expenses are reported as production costs in the period in which they are incurred.

Intangible assets are amortised when commercial production starts in accordance with the unit of production method, as described in more detail above in the section "Depreciation and amortisation".

Intangible assets are subject to impairment testing if circumstances arise that indicate that the reported value of an asset may not be recoverable.

Tangible fixed assets

Tangible fixed assets consist of buildings, machinery, office equipment, tools, technical plants and construction in progress. All tangible fixed assets are reported at historical cost less depreciation. The initial cost of an asset is comprised of its purchase price or construction cost, any costs

directly attributable to bringing the asset into operation and the initial estimate of the restoration obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration provided to acquire the asset. Borrowing costs directly attributable to tangible assets acquired after 1 January 2009 are also included in the acquisition value. The capitalised value of a financial lease is also included within tangible fixed assets. Expenditure for improvement of the performance of the assets over and above the original performance increases the reported value of these assets. Expenditure for repair and maintenance is reported as an expense in the period in which it is incurred.

Russian legislation does not yet permit the ownership of land within the license area. Land owned by the Company consists of plots at which office buildings or warehouses are situated. Land is not depreciated.

Construction in progress is represented mostly by new plant construction. The Group assesses the degree of completion of the plant under construction to determine when it moves into gold production. Upon completion of construction, the assets are transferred into buildings or machinery, equipment and other technical plants. The assets' residual value and useful life are reviewed on each balance sheet date and adjusted when necessary. When an asset's reported value may not be recoverable, an impairment loss is reported immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing sales revenues with the reported value. These are reported under operating income and external costs, respectively, in the income statement.

Inventory

Inventory is valued, with application of the weighted average method, at the lower of the acquisition value and the net realisable value on the balance sheet date. Pure gold and semi-finished products comprise direct manufacturing costs such as lining material, wages and also assignable production overhead costs. Borrowing costs are not included in the valuation. The net sale value is comprised of the normal sales price with deductions for usual selling expenses. Central Asia Gold manufactures, via its subsidiaries, gold concentrate at various advanced levels. The gold concentrate is usually

smelted by the subsidiary into Doré class gold ingots prior to delivery to external refineries (smelting works) for final enrichment to sale quality (24 carat). This gold is designated "pure gold" in the balance sheet. Furthermore, a semi-finished product or "waste sand" containing gold was produced during 2007–2010 within the Tardan mining deposit. This sand cannot be sold, but is being stored pending the construction of a leaching plant where the gold can be chemically extracted. This semi-finished product is designated "ores and concentrates" in the balance sheet. The leaching plant will be put into operation during the first half of 2011. Waste sand is classified as goods in stock. There is also "waste sand" on GRE (Solcocon). The consolidated balance sheet also includes an item that covers the spare parts, diesel fuel, etc. that is consumed during gold manufacture. This category of assets is referred to as "raw materials and consumables". Furthermore, the consolidated balance sheet includes work in progress, such as preparation works (overburden, etc.) for the next production season on alluvial subsidiaries (Artelj Lena and Gold Borzia). Together "pure gold", "ores and concentrates", "raw materials and consumables" and "work in progress" constitute the balance sheet item "inventory".

Leasing

A financial leasing contract is one in which, in all significant respects, the economic risks and benefits associated with ownership of an object are transferred from the lessor to the lessee. Those leasing contracts that are not financial are classified as operational leasing contracts. Assets that are held according to financial leasing contracts are reported as fixed assets in the consolidated balance sheet at the lowest of the market value of the assets and the present value of the prospective lease payments. The liability that the Group has in relation to the lessor is recognised in the balance sheet as a liability and is allocated between a short-term and a long-term component. Lease payments are allocated between interest and amortisation of the debt. The interest is distributed over the leasing period so that each accounting period is charged with an amount equivalent to a fixed interest rate on the debt reported during the respective period. The leased asset is written off according to the same principles that apply for other assets of the same kind. CAG (Gold Borzia) mostly rents bulldozers from Caterpillar Financials under financial leasing contracts.

Leasing fees for operational leasing contracts are expensed on a straight line basis over the leasing period. CAG mostly rents machinery under operational leasing contracts.

Provisions

Provisions are reported when an obligation arises resulting from events that have occurred, and where it is probable that payment will be required to fulfil the obligation. It is also a prerequisite that it is possible to make a reliable assessment of the amount to be paid out. The amount in question is calculated by the executive management at the present value given the reasonable assumptions that can be made at the end of each accounting year/period.

Financial instruments

Financial instruments recognised in the balance sheet include cash and cash equivalents, securities, trade receivables and other receivables, trade payables and other payables and loans.

A financial instrument is recognised in the balance sheet when the Company becomes party to the instrument's return conditions. Customer receivables are reported once delivery has been made. A liability is entered when the counterpart has rendered a service and a contractual liability to pay exists, even if an invoice has not been received. A financial asset is removed from the balance sheet when the rights under the contract have been realised, have expired or the Company has lost control over them. A financial liability is removed from the balance sheet when the liabilities under the agreement have been fulfilled or in any other way rescinded.

Classification

The Group classifies its financial instruments in the following categories: a) financial assets valued at fair value via profit and loss, b) loans receivable and trade receivables, c) financial assets available for sale and d) financial liabilities. The classification depends on the purpose for which the financial asset was acquired. The management determines the classification of the financial assets when they are first reported.

a) Financial assets valued at fair value via profit and loss

Financial assets valued at fair value via profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the

purpose of selling in the near future. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. CAG currently has no financial assets valued at fair value via the profit and loss.

b) Loans receivable and trade receivables

Loans receivable and trade receivables are non-derivative financial assets with determined or determinable payments that are not listed on an active market. Receivables arise when the Company supplies money, goods or services directly to a customer without any intention of dealing in the receivable arising. They are included in current assets, with the exception of items with a maturity date more than 12 months after the balance sheet date, which are classified as fixed assets. The Group's loans receivable and accounts receivable consist of trade receivables and other receivables and cash and cash equivalents in the balance sheet.

Accounts receivable are short-term and are, therefore, reported at nominal values less any provision for depreciation. A provision for depreciation of accounts receivable is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation or default or delinquency in payment (due for more than 30 days) are considered as indicators that the account receivable is impaired.

Loans receivable are initially reported at fair value and, thereafter, at accrued acquisition value.

Cash and cash equivalents are defined as cash and bank balances, as well as short term investments with a maturity of three months or less from the date of acquisition, which can easily be transformed into cash.

c) Financial assets available for sale

Financial assets available for sale are assets that are non-derivative and for which the assets identified as available for sale are not classified in any of the other categories. They are included in fixed assets if management does not intend to sell the asset within 12 months after the reporting period. Assets in this category are continuously measured at fair value and changes in fair

value are recognised in equity under other comprehensive income.

d) Financial liabilities

Financial liabilities include trade creditors and borrowings.

Trade creditors are short-term and, therefore, reported at nominal value. Borrowings are reported at fair value, which is the issue proceeds net of transaction costs, and, thereafter, at accrued acquisition value with application of the effective interest method.

Fair value hierarchy

When the fair value of financial assets and financial liabilities reported in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Management of financial risks

Policy for the management of financial risks

The Group's activities expose it to a variety of financial risks: a) market risk (including currency and gold price risk, time lapse, translation exposure and interest rate risk), b) credit risk and c) liquidity risk including capital risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group attempts to mitigate the effects of these risks by ensuring that the Board and the Company management have the relevant competence. Thus, the Company works proactively by carrying out suitable measures to counteract and manage the risks listed above. In addition, the Group obtains advice from consultants, when necessary. The Company does not use derivative instruments to hedge financial risks.

The Group's assessed risk exposure relating to financial instruments is described below.

a1) Currency and gold price risk

Central Asia Gold is exposed, through its activities, to both currency risk and gold price risk, as changes in exchange rates and gold prices affect the Group's results and cash flow. Central Asia Gold's policy is, in general, not to hedge this currency and gold price risk. However, under certain circumstances, e.g. if lending banks require it or if the Board of Directors considers it to be warranted, the risks can be limited, e.g. through forward sales of gold or through currency hedging measures.

a2) Time lapse

This exposure primarily arises within Central Asia Gold's alluvial gold production. Alluvial gold production is highly seasonal and takes place during the warm period of the year (May–October). The rest of the year is devoted to preparing for production and, during the first four months of the calendar year, there are substantial expenses prior to the initiation of production. This includes the purchase of large amounts of fuel, service overhauls of all equipment, transport of workers to the remote production sites, etc. This implies that a large proportion of the current year's production costs are determined during the first six months of the year, while actual gold production predominantly takes place during the third quarter. Sales subsequently take place during both the third and fourth quarters. Hence, the final price of the gold sold (the sales value) can differ markedly from the acquisition value of the gold produced.

a3) Translation exposure

When translating the foreign Group companies' net assets (equity and surplus value allocated Groupwise to subsidiaries abroad) to Swedish krona, a translation difference arises in conjunction with exchange rate fluctuations, and this has an effect on the Group's equity. At present, Central Asia Gold does not take measures to protect itself against the effect of this exposure. The Group's equity can, consequently, both increase and decrease as a consequence of translation exposure.

a4) Interest rate risk

The Group has both interest-bearing and non-interest bearing loans. Interest-bearing loans refer to short-term rouble loans in Russian banks (Svyaz bank). Non-interest bearing loans refer to loans received from Centerra Gold for the financing of Kara-Beldyr and, also, to accounts payable,

taxes, salaries and accrued expenses etc. Currently, all interest-bearing loans have fixed interest rates during the terms of the loans and, in that respect, fluctuations in market interest rates have no immediate effect on the Group. The risk of the Russian bank changing the fixed interest rate during the terms of the loans is outside management's control.

b) Credit risk

As a rule, surplus liquidity shall be invested in savings accounts or in short-term interest-bearing instruments without any significant credit risk.

With respect to pure gold sales, there are generally no bad debts. The purchasers are comprised of the large, licensed, gold purchasing Russian banks. Payment is usually received within 30 days.

c1) Liquidity risk

Central Asia Gold AB is at an early development stage, and, therefore, requires continued high levels of capital expenditure. Funds for these investments cannot only be gained from internally generated income. The Company's growth, therefore, remains dependent on external financing. External financing may be received in the form of borrowing or via an injection of equity. For companies at an early stage, equity financing is the most common method. Since its formation, the Company has implemented preferential or directed new issues on several occasions. Successful implementation of share issues is, however, to a large extent, dependent on the market climate. However, external financing in the form of bank loans has become, for Central Asia Gold, one of the most important sources of working capital and has also ensured investment activity growth. Having a positive credit history, CAG has strengthened its relationships with the banks, which allows for confidence as regards further successful cooperation.

c2) Capital risk

Issues concerning capital risk, optimum capital structure and the cost of capital are central in all companies. The Board of CAG AB always tries to optimise the cost of capital. However, in accordance with the above, it must also take into account that, at present, the Group is at an early stage of development and the equity/assets ratio must, consequently, be maintained at a relatively high level. The Board of Directors currently considers that the equity

ratio of the Group, at least during the start-up phase (before large-scale production has started) shall be a minimum of 50%. The ratio may be reduced at a later stage. As at year end 2010, the Group's equity/assets ratio, including minority share of equity, is at 63.6%. This is considered to be satisfactory in the present situation.

Estimations and evaluations in the financial statements

In order to prepare financial statements in accordance with IFRS, estimations and assumptions must be made that affect the reported asset and liability amounts, as well as income and expenses and other information submitted in the annual financial statements. The evaluations and estimations made by the Board of Directors and the management are based on historic experience and forecasts of future developments. The actual outcome may differ from these estimations.

In particular, information about significant areas of uncertainty regarding the estimations considered by management in preparing the consolidated financial statements is described below.

Ore calculation principles

Central Asia Gold reports ore reserves in accordance with Russian geological standards. In short, this means that, after the initial exploration period for a mining licence, all mineral licence holders in Russia must undergo an ore classification inspection (roughly equivalent to a western feasibility study) by the Russian State Committee on Reserves, GKZ, either in Moscow or at GKZ's appropriate regional office. This ore classification is performed once and can then be updated as required. The procedure is, therefore, very similar, whether for precious metals, base metals, or, for that matter, oil.

If the ore reserves are approved, they are entered in the Russian state register of reserves and will provide the basis for production requirements that are, consequently, drawn up for the licence holder. The Russian principles for ore classification are similar, but not identical, to western standards. In addition, the latter are not entirely identical in different western countries. The Russian registered ore reserves then form the basis for the Central Asia Gold Group's amortisation of mining permits and exploration costs in accordance with the Unit of production method.

Such amortisation has been carried out for the Tardan deposit since 2005. For Tardan, the calculation of the amortisation for the years 2005–2008 was based on gold reserves of 6.8 tonnes established in the early 1990s. In 2008, a new examination of reserves was carried out at the Tardan deposit and the established gold reserves were determined at 7.8 tonnes. These gold reserves have formed the basis for the calculation of the amortisation according to the unit of production method since 2009. For the Bogomolovskoe deposit at the Staroverinskaya license area, gold reserves of 7.6 tonnes established in previous years have been increased to 9.3 tonnes in 2010, which forms the basis for the calculation of the amortisation for the Bogomolovskoe deposit according to the unit of production method.

The registered ore reserves are, thus, established by a party (GKZ) that is independent of Central Asia Gold. The calculation of the reserves is based on a very comprehensive range of geological and financial data summarised in a Russian feasibility study. Ore reserves are not static, but may vary over time depending on factors such as the price of gold, new geological information, currency exchange rates and cost levels. A change in ore reserves can have a considerable impact on such matters as amortisation, restoration costs and the book value of assets.

An impairment test was carried out on the Group's productive gold assets as at 31 December 2010. The most significant portion of the intangible assets relates to the Tardan deposit (in the subsidiary LLC Tardan) and the Bogomolovskoye deposit (in the subsidiary LLC GRE 324). For this purpose, a discounted cash flow model has been used extending over a 6-year period. A number of variables are simulated in the model. Among the more important assumptions are the price of gold and the yield required. The base assumption regarding the price of gold during the period is a value of 1440 USD/oz and the yield required is 14% per year. A number of other assumptions are also important. The result of the base assumptions is that no impairment is required at year-end 2010.

See Note 8 for further details.

Restoration costs

An obligation regarding future restoration costs arises when there is an environmental

impact due to a mining operation in the form of exploration, evaluation, development or on-going production. The restoration costs are calculated on the basis of a restoration plan. The Group reviews its mine restoration provision annually. Significant estimates and assumptions are made in determining the provision for mine restoration, as there are numerous factors affecting the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates, and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts for which current provisions have been made. The provision at reporting date represents management's best estimate of the present value of the future restoration costs required. Changes to estimated future costs are reported in the statement of financial position by either increasing or decreasing the restoration liability and restoration asset if the initial estimate was originally reported as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment. Any reduction in the rehabilitation liability and, therefore, any deduction from the rehabilitation asset may not exceed the reported value of that asset. If it does, any excess over the reported value is reported immediately in profit or loss. If the change in the estimate results in an increase in the rehabilitation liability and, therefore, an increase in the reported value of the asset, the entity is required to consider whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36.

In Central Asia Gold's case, the size of the restoration costs is, to a large extent, dependent on the type of land in which the mining operation is located. If the mining operation is located within an area originally classified as agricultural, forestry or building land, the restoration requirements are more extensive. If, on the other hand, the land in question did not have any particular alternative use at the time of the initiation of the mining operation, the restoration requirements are more modest. At present, none of the different mining licences in eastern Siberia held by Central Asia Gold are located on agricultural, forestry or building land.

See Note 19 for further details.

Impairment of assets

The Group reviews each cash generating unit annually, in order to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its cash generating units as being an individual mine licence, which is the lowest level for which cash inflows are largely independent of those of other assets.

See Notes 8, 9, 10, and 11 for further details.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are reported in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets reported at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

See Note 7 for further details.

Inventories

Net realisable value tests are performed at least once per year and represent the estimated future sales price of the product, based on prevailing spot metal prices at the reporting date, less estimated costs to complete production and bring the product to sale. Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data, and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by means of periodic surveys.

See Note 16 for further details.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities reported in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions regarding these factors could affect the reported fair value of the financial instruments.

See Note 25 for further details.

Segment reporting

Operating segments are recognised in a manner that complies with the internal reporting submitted to the highest decision-making authoritative function. At CAG, this function has been identified as the CEO, who is responsible for and manages the day-to-day administration of the Group in accordance with the guidelines of the Board. An operating segment is a group of assets and performed activities that are exposed to risks and rewards that differentiate them from other operating segments. A geographical area is an area in which assets, goods or services are exposed to risks relating to a certain economic environment that differentiates them from risks associated with activities in other economic environments. Since the date of its formation, CAG has only extracted one product, gold, in one economic environ-

ment, Russia. Hence, the Group is only considered to have one operating segment.

Employee benefits

All of the Group's pension plans are defined contribution plans, in which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current period and prior periods. Wages, salaries, contributions to the Russian Federation state pension and social security funds, paid annual leave and sick leave and bonuses are accrued in the period in which the associated services are rendered by the employees of the Group.

Equity

Transaction costs directly related to the issue of new shares or options are recognised in equity as a reduction of the issue proceeds.

Notes

Note 1 Other operating income

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Other operating income				
VAT reimbursement	5,009	–	5,009	–
Profit from sale of subsidiaries	29,131	–	7,762	–
Other	1,698	1,649	670	–
Total other operating income	35,838	1,649	13,441	–

VAT reimbursement

During the second quarter of 2010, the Parent Company managed to recover the Swedish input VAT relating to the entire period since incorporation. The total amount of VAT recovered amounts to TSEK 5,009 and has been recognised as operating income during the second quarter of 2010. Repayment of the full amount has been received from the Swedish tax authorities in November 2010.

Profit from sale of subsidiaries

The profit from the sale of subsidiaries relates to the sold subsidiaries LLC Kara Beldyr and LLC Artelj Tyva stated in note 21.

Note 2 External expenses

	Group 2010	Group 2009 (restated*)	Parent Company 2010	Parent Company 2009
External expenses				
Fuel	29,395	35,424	–	–
Materials	24,352	30,503	–	–
Mineral resources exploration tax (MRET)	12,678	8,465	–	–
Exploration costs	18,153	10,750	–	–
Third party services	55,253	15,032	–	–
Audit fees**	1,873	1,982	1,560	1,015
Other	11,930	17,879	5,449	8,262
Total external expenses	153,634	120,035	7,009	9,277

* Restated in accordance with Note 29.

** For remuneration to auditors, refer to the table below

Audit fees

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
PwC				
Audit assignments	1,560	1,015	1,560	1,015
Auditing activities other than the audit assignment	–	–	–	–
Tax consultancy services	–	–	–	–
Other assignments	–	–	–	–
Total PwC	1,560	1,015	1,560	1,015
Other auditors				
Audit assignments	313	967	–	–
Auditing activities other than the audit assignment	–	–	–	–
Tax consultancy services	–	–	–	–
Other assignments	–	–	–	–
Total other auditors	313	967	–	–

Note 3 Employee benefit expenses

	Total 2010	of which Women	Total 2009	of which Women
Average number of employees				
Parent company in Sweden	1	1	2	1
Subsidiaries in Russia	915	118	932	107
Total for the Group	916	119	934	108
Number of employees at year-end				
Parent company in Sweden	1	1	1	1
Subsidiaries in Russia	726	93	556	80
Total for the Group	727	94	557	81
	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Salaries and remuneration in Sweden				
Board and CEO	40	250	40	250
Other employees	432	356	432	356
	472	606	472	606
Salaries and remuneration in Russia				
Board and senior executives	223	—	—	—
Other employees	57,458	43,990	—	—
	57,681	43,990	—	—
Total salaries and remuneration	58,153	44,596	472	606
Social security expenses				
Social security expenses in Sweden	996	364	470	364
Social security expenses in Russia	3,105	2,489	—	—
	4,101	2,853	470	364
Pension expenses, defined contribution plans				
Board and senior executives	20	—	—	—
Other employees in Russia	10,129	8,296	—	—
Other employees in Sweden	—	—	—	—
Total salaries, remuneration, social security expenses and pension expenses	72,403	55,745	942	970
	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Group – Board of Directors and CEO at year-end				
Women	1	1	1	1
Men	4	4	4	4
Group – Management at year-end				
Women	—	—	—	—
Men	3	3	—	—

Remuneration and other benefits during the year – specification for Board members and senior executives.

	Board fee/ basic salary	Variable remuneration	Other benefits	Pension benefits
Board of Directors				
Preston Haskell, CEO, member	–	–	–	–
Lars Guldstrand, Chairman of the Board	–	–	–	–
Mike Nunn, member	–	–	–	–
Alice Volgina, member	–	–	–	–
Maxim Kondratyukin, member	–	–	–	–
Patric Perenius, member	40	–	–	–
Group management				
Pavel Olishevskiy*, Operational Director	223	–	–	–
Håkan Claesson, CFO**	–	–	–	–
Stefan Egerstad, CFO***	–	–	–	–

* Before the 1st of June 2010, when the Central Asia Gold Management Company (LLC Management Company CAG) was formed, Pavel Olishevskiy was employed by the management company LLC NMC in Moscow, which provided management services to the Central Asia Gold Group. During the financial year, a total of TSEK 3,516 was paid to LLC NMC for services provided to the Central Asia Gold Group including the services provided by Pavel Olishevskiy.

** Håkan Claesson had a consultancy agreement with CAG as temporary CFO during 2010 and was never employed by the Group. During 2010, a total of TSEK 894 (54) was paid in consultancy fees for services provided by Håkan Claesson.

*** Stefan Egerstad was employed as CFO in late December 2010 and has not received any remuneration during 2010.

The Managing Director of the Parent Company (Preston Haskell) is also the main owner of the Group. He has not been paid any salary during 2010.

Group

Fees are paid to the Board members as determined at the AGM. No other remuneration is paid by the Company. During 2010, a total of TSEK 40 (TSEK 80) was paid in fees to the independent Board members. Alice Volgina and Lars Guldstrand have renounced their Board member fees

Note 4 Depreciation, amortizations and write down

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Depreciation on buildings	-3,519	-4,141	–	–
Depreciation on machinery, equipment, and other technical plants.	-17,023	-17,790	–	-2
Depreciation on machinery, equipment and other technical plants capitalised as part of Intangible fixed assets	1,261	1,751	–	–
Depreciation of intangible non-current assets.	-4,028	-2,632	–	–
Total depreciation	-23,309	-22,812	–	-2
Impairment of intangible assets *	–	-392	–	-392

* The impairment in the Parent Company relates to a license for diamond extraction in Sweden. In 2009, management made the assessment that this license did not hold any commercial value to the Group.

Note 5 Financial income

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Interest income from Group companies	–	–	15,228	13,162
Other interest income	1,280	1,281	131	83
Exchange rate differences	–	–	13,228	284
Total financial income	1,280	1,281	28,587	13,529

Note 6 Financial expenses

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Exchange rate differences	-2,827	-4,760	-38,426	-6,676
Interest expenses on loans and borrowings	-13,287	-15,182	-5,312	-3,198
Interest expenses on leasing	-1,837	-4,823	—	—
Impairment of shares and participating interests	—	—	—	-5,295
Total financial expenses	-17,951	-24,765	-43,738	-15,169

Note 7 Income tax and deferred income tax

	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Current tax	-2,354	-540	-526	—
Deferred tax	-7,064	3,247	—	—
	-9,420	2,707	-526	—

Connection between tax expense and reported profit/loss

Pre-tax profit/loss	17,108	139,582	-10 713	-12,281
Tax according to applicable tax rate	-3,422	-27,916	2,818	3,230
Tax effect of expenses that are non-deductible for tax purposes	-3,907	-2,917	-9	-1,403
Tax effect of non-taxable income	3,211	39,079	1,146	—
Expenditure reported directly against equity	3,735	203	3,735	203
Tax effect of changes in previous years' taxation	-526	—	-526	—
Impairment of deferred tax assets/reversal of impaired deferred tax assets	55	-3,226	—	—
Difference between the Group's tax rate and the individual companies' tax rates	-876	-486	—	—
Tax effect of loss carry-forwards for which deferred taxes recoverable are not reported:	-7,690	-2,030	-7,690	-2,030
	-9,420	2,707	-526	—

The applicable tax rate for the Parent Company is 26.3%. The applicable tax rate for the Russian subsidiaries is 20%. The main business activities in the Group are carried out in Russia and the applicable tax rate used for the Group is 20%:

	Group 2010-12-31	Group 2009-12-31
Deferred tax recoverable relating to capitalised deficit		
Incoming deferred tax recoverable	37,117	15,124
Acquisition values from acquired subsidiaries	—	11,386
Disposal values from sold subsidiaries	-514	—
Change in deferred tax recoverable	-434	10,607
Closing deferred tax recoverable	36,171	37,117
Total deferred tax recoverable	36,171	37,117

Currently, tax loss carry-forwards in the Parent Company are not reported as deferred tax assets in the balance sheet, as it is uncertain whether such tax losses can be utilised based on the managerial character of the Parent Company.

The Group does not have sufficient taxable temporary differences; therefore, it recognises a deferred tax asset relating to tax losses carried forward. In the subsidiaries, deferred tax assets on tax losses carried forward are reported when it is probable that the subsidiary will generate sufficient taxable profits to utilise the tax losses within the foreseeable future. According to the Russian tax law, tax losses can be utilised within a period of 10 years from the year when the loss was incurred.

In the CAG Group, only two Companies have material amounts of deferred tax assets: LLC Tardan Gold (TSEK 25,421) and LLC GRE-324 (TSEK 9,660). The majority of the deferred tax asset relating to these tax losses carried forward, TSEK 31,073 out of TSEK 36,171, can be utilised until 2017. Based on the forecasts for LLC Tardan Gold and LLC GRE 324, these companies will generate taxable profits that enable the deferred tax asset on their tax losses carried forward to be utilised within 3 years.

	Group 2010-12-31	Group 2009-12-31
Deferred tax liabilities with regard to temporary differences		
Opening liability for deferred tax on the acquired mining licenses and capitalised work for own account	31,033	794
Acquisition values from acquired subsidiaries	–	22,684
Disposal values from sold subsidiaries	-1,344	–
Change in deferred tax liability on the acquired mining licences and capitalised work for own account	1,707	7,555
Closing deferred tax liability on the acquired mining licences and capitalised work for own account	31,396	31,033
Opening deferred tax liability on the acquired non-current assets	8,900	965
Acquisition values from acquired subsidiaries	–	7,935
Change in deferred tax liability on the acquired non-current assets	5,274	–
Closing deferred tax liability on the acquired non-current assets	14,174	8,900
Total deferred tax liability	45,570	39,933
Deferred tax is calculated on the difference between reported values and taxable values of assets and liabilities.		
There is no deferred tax attributable to items reported directly in equity.		

Note 8 Mining permits and capitalised exploration costs

	Group 2010-12-31	Group 2009-12-31	Parent company 2010-12-31	Parent company 2009-12-31
Opening balance	152,242	35,936	392	392
Disposal values of sold subsidiaries	-6,721	–	–	–
Received net through the acquisition of companies and permits	–	107,671	–	–
Translation difference	-2,320	-2,115	–	–
Capitalised exploration costs	18,153	10,750	–	–
Closing balance accumulated value	161,353	152,242	392	392
Opening balance amortisations and write-downs	-3,024	–	-392	–
Amortisation for the period	-4,028	-2,632	–	–
Impairment for the period	–	-392	–	-392
Closing balance accumulated amortisation	-7,052	-3,024	-392	-392
Closing net book value	154,301	149,218	–	–

Intangible assets comprise mining permits, TSEK 1,369 (TSEK 5,926) and capitalised exploration costs TSEK 152,932 (TSEK 143,292).

The intangible assets represent a significant portion of the assets in the CAG Group and impairment tests are regularly carried out by the management of the CAG Group in order to review that the recoverable values of these assets are not lower than their carrying values. The impairment tests are carried out through the application of a discounted cash flow model over the calculated life time of the asset/deposit. A number of variables are simulated in the model. Among the more important variables are the price of gold and the yield required.

An impairment test was carried out on the Group's productive gold assets as at 31 December 2010. The most significant portion of the intangible assets refers to the Tardan deposit (in subsidiary LLC Tardan Gold) and the Bogomolovskoye deposit (in subsidiary LLC GRE-324). The key assumptions applied in the test were the price of gold during the test period of 1440 USD/oz, and a required yield of 14% per year. The result of the impairment tests was that no impairment of the Tardan deposit or the Bogomolovskoye deposit was required as at 31 December 2010. In order to test the sensitivity of the impairment test to the key assumptions, a sensitivity analysis was carried out, in which the assumed gold price was lowered by 10% and the yield increased to 16%. Even with these assumptions, no need for impairment was noted.

Note 9 Buildings and land

	Group 2010-12-31	Group 2009-12-31
Opening balance	43,020	6,170
Purchases	6,605	3,980
Completion of ongoing construction work	172	–
Disposal values of sold subsidiaries	-6,971	–
Acquisition values of acquired subsidiaries	–	34,845
Disposal sales	-5,928	-1,036
Translation difference	-2,766	-939
Closing balance accumulated acquisition values	34,132	43,020
Opening balance	-4,437	-1,360
Disposal values of sold subsidiaries	989	–
Disposal sales	286	833
Translation difference	827	229
Depreciation for the financial year	-3,519	-4,141
Closing balance accumulated depreciation	-5,854	-4,437
Closing net book value	28,278	38,583

The acquisition value for owned land amounts to TSEK 25 (25).

Note 10 Machinery, equipment and other technical plants

	Group 2010-12-31	Group 2009-12-31	Parent company 2010-12-31	Parent company 2009-12-31
Opening balance	82,675	53,590	25	25
Purchases	29,731	3,793	–	–
Disposal values of sold subsidiaries	-13,744	–	–	–
Acquisition values of acquired subsidiaries	–	35,000	–	–
Disposal sales	-5,960	-3,673	–	–
Translation difference	-10,029	-6,035	–	–
Closing balance accumulated acquisition values	82,671	82,675	25	25
Opening balance	-24,550	-9,731	-25	-23
Disposal values of sold subsidiaries	13,580	–	–	–
Disposal sales	1,057	1,361	–	–
Translation difference	5,950	1,610	–	–
Depreciation for the year	-17,023	-17,790	–	-2
Closing balance accumulated depreciation	-20,984	-24,550	-25	-25
Closing balance book value	61,687	58,125	–	–

Note 11 Construction in progress

	Group 2010-12-31	Group 2009-12-31
Opening balance	4,649	–
Acquisition values of acquired subsidiaries	–	8,034
Completion of ongoing construction work	-172	-3,664
Purchases during the year	51,896	314
Translation difference	-3,250	-35
Closing balance book value	53,122	4,649

Construction in progress at the end of 2010 is comprised mainly of the as yet incomplete heap leaching plant at the Tardan deposit and associated infrastructure. It is expected that the plant will be fully commissioned by the summer of 2011.

Note 12 Investments in Group companies

	Parent company 2010-12-31	Parent company 2009-12-31
Opening balance	429,915	254,412
Formation of subsidiaries	413	180,800
Additional investments in subsidiaries (LLC Kara-Beldyr)	17,406	–
Sale of subsidiary (LLC Kara-Beldyr)	-21,517	–
Impairment of shares and participating interests	–	-5,297
Acquisition costs	8,884	–
Equity contributions provided	8,892	–
Closing book value	443,993	429,915

In 2010, the subsidiary, LLC Management Company CAG, was founded. An equity contribution was provided by the Parent Company to the subsidiary LLC Solcocon. Acquisition costs refer to expenses incurred during the merger with the NMC subgroup. During 2010, the subsidiary, LLC Kara-Beldyr, was sold, see Note 21 for further details.

In 2009, an impairment of shares in LLC Borservice was undertaken in the amount of TSEK 5,297, based on the decision to close the operations in LLC Borservice.

The investment in subsidiaries and loans to subsidiaries represent a significant portion of the assets in the Parent Company, and impairment tests are regularly carried out by the management of the Parent Company in order to assess that the recoverable value of these assets is not lower than their reported values. The impairment tests are carried out through the application of a discounted cash flow model for each subsidiary over the calculated life time of the asset/deposit held by the subsidiary or for the reasonable foreseeable future if no license/deposit is owned by the subsidiary. The valuation model is sensitive to a number of variables and assessments, with some of the more important being the price of gold and the yield required. Based on impairment tests performed as at 31 December 2010, management has not identified any need for impairment of the investments in subsidiaries and loans to subsidiaries.

Note 13 Investments in joint ventures and long-term loans receivable

	Group 2010-12-31	Group 2009-12-31	Parent company 2010-12-31	Parent company 2009-12-31
Investments in joint venture				
Joint venture Awilia Enterprises Limited	19,165	–	11,438	–
Long-term loans receivable				
Long-term loans receivables from joint venture Awilia Enterprises Limited	5,486	–	5,487	–
Other long-term loans receivable	115	484	–	–
Total long-term loans receivable	5,602	484	5,487	–

In September 2008, CAB AB entered into a Joint Venture Agreement with the Canadian gold mining company Centerra Gold Inc* (Centerra), regarding the Kara-Beldyr Joint Venture Project. The agreement includes two phases, in which phase one provides Centerra the right, but not the obligation, to earn 50% interest on the Kara Beldyr Joint Venture Project by investing MUS\$ 2.5. In phase two, Centerra has the right, but not the obligation, to earn another 20% interest on the Kara Beldyr Joint Venture Project by investing an additional MUS\$ 4.

Phase one of the agreement was completed in the third quarter of 2010 and Centerra thereby earned the right to 50% of the Kara Beldyr Joint Venture Project. CAG AB has, for this purpose, established a company incorporated under the laws of Cyprus, Awilia Enterprises Ltd. (Awilia). A total of 100% of the shares in the former subsidiary of CAG AB, LLC Kara-Beldyr, (being the owner of the Kara Beldyr Joint Venture Project), were transferred to Awilia and 50% of the shares in Awilia were transferred from CAG AB to Centerra. The transfer of the shares to Centerra was formally registered on January 21, 2011.

After completion of phase one, Centerra has chosen to exercise the option to increase its interest in the project by investing another MUS\$ 4 in the Joint Venture and, thereby, earn another 20% ownership, making their total share 70% of the Joint Venture.

TSEK 5,486 of this amount was already invested by Centerra during the 4th quarter of 2010. This investment is reported as a loan provided by Centerra to Awilia through CAG AB. Starting from the 4th quarter of 2010, LLC Kara-Beldyr and Awilia are considered to be related parties to CAG.

The Group reports interests held in Joint Ventures according to the equity method.

There are no contingent liabilities in Awilia Enterprises Ltd and the Group has no commitment in respect of its share in Awilia Enterprises Ltd.

** Centerra Gold Inc. is a gold mining company focused on operating, developing, exploring and acquiring gold properties, primarily in Asia, the former Soviet Union and other emerging markets worldwide. Centerra Gold Inc. is a leading North American-based gold producer and is the largest Western-based gold producer in Central Asia. Centerra Gold's Inc.'s shares trade on the Toronto Stock Exchange (TSX) under the symbol CG. The Company is headquartered in Toronto, Canada.*

Note 14 Shares and participating interests in subsidiary companies

Group	Co. ID	Regd office	Equity and share of votes	Reported value
LLC Tardan Gold	1041700563519	Kyzyl	100%	
LLC Artelj Tyva	1051740507081	Kyzyl	100%	
LLC Artelj Lena	1073808018602	Irkutsk	91.7%	
LLC Uzhunzhul	1071901004746	Abakan	100%	
LLC GRE-324	1037542001441	Chita	100%	
LLC Solcocon	1077530000239	Chita	100%	
LLC Borservice	1077536005601	Chita	100%	
LLC Gold Borziya	1077530001174	Chita	100%	
LLC Rudtechnologiya	1077530000570	Krasnokamensk	100%	
Joint ventures				
Awilia Enreprises Limited	270158	Cyprus	50%	19,165
Parent company	Co. ID	Regd office	Equity and share of votes	Reported value
LLC Tardan Gold	1041700563519	Kyzyl	100%	250,301
LLC Artelj Lena*	1073808018602	Irkutsk	0.2%	—
LLC Uzhunzhul*	1071901004746	Abakan	1%	—
LLC GRE324	1037542001441	Chita	100%	39,115
LLC Solcocon	1077530000239	Chita	100%	25,359
LLC Borservice	1077536005601	Chita	100%	105
LLC Gold Borziya	1077530001174	Krasnokamensk	100%	29,248
LLC Rudtechnologiya	1077530000570	Krasnokamensk	100%	99,453
LLC Management Company CAG	1097746422840	Moscow	100%	413
				443,994
Joint ventures				
Awilia Enreprises Limited	270158	Cyprus	50%	11,438
				11,438

* Group companies LLC Artel Lena and LLC Uzhunzhul are indirectly owned by CAG AB through the subsidiary LLC Tardan. Hence, there are no reported values for these subsidiaries in the Parent Company.

Note 15 Loans to subsidiaries

	Parent company 2010-12-31	Parent company 2009-12-31
Opening balance	89,085	113,167
Loans during the year	190,290	57,716
Accrued interest	17,472	13,015
Translation difference	-22,284	-14,081
Offsetting of loans given to subsidiaries with loans received from subsidiaries*	—	-80,732
Closing book value	274,563	89,085

* In the Parent Company's balance sheet for 2009, an amount of TSEK 80,732 of long term receivables was offset against long term liabilities to the same legal entity.

Loans to subsidiaries represent a significant part of the assets in the Parent Company, and impairment tests are regularly carried out by the management of the Parent Company in order to determine that the recoverable value of these assets is not lower than their reported values. For further details, see Note 12.

Note 16 Inventories

	Group 2010-12-31	Group 2009-12-31 (restated*)
Raw materials**	54,449	18,398
Ores and concentrates	98,600	63,324
Pure gold	3,418	3,673
Work in progress	9,717	–
Other	1,588	4,675
Total	167,772	90,070

* Restated in accordance with Note 29.

** The impairment of raw materials during 2010 was TSEK 2,097 (TSEK 1,173).

The cost of inventories reported as expenses and included in 'external expenses' amounted to TSEK 60,781 (TSEK 65,927)

Note 17 Other current receivables and prepaid expenses

	Group 2010-12-31	Group 2009-12-31	Parent company 2010-12-31	Parent company 2009-12-31
Other current receivables	4,124	1,700	209	657
VAT recoverable*	48,987	35,095	365	–
Total other current receivables	53,111	36,795	574	657

* The sale of gold in Russia is not subject to output VAT, however purchases of most materials and a wide range of other expenses incurred by the Group are subject to input VAT. Therefore the CAG Group always has a significant amount of VAT recoverable.

Prepaid expenses	33,026	4,086	67	84
Total prepaid expenses	33,026	4,086	67	84

The increase in prepaid expenses in 2010 is due to advances provided to constructors and suppliers of equipment for the new Heap leaching plant under construction at the Tardan deposit.

Note 18 Earnings per share and other information regarding shares and equity

a) Before dilution

The earnings per share before dilution are calculated by dividing the profit/loss attributable to the Parent Company's shareholders by the weighted average number of ordinary shares during the period.

	Group 2010	Group 2009 (restated*)
Profit/loss attributable to the Parent Company's shareholders	7,964	146,857
Weighted average number of ordinary shares outstanding (thousands)**	5,026	1,720
Earnings per share, SEK	1.58	85.37

* Restated in accordance with Note 29.

** The average number of shares for 2009 has been adjusted for the reversed split made in 2010.

b) After dilution

The weighted average number of shares outstanding after dilution is the same as before dilution. This is because the only potentially diluting effect is the warrants outstanding at year-end 2010. In all, 510,650 million warrants were issued with the right to acquire a total of 1,315,000 shares, of which 450,000 shares with a strike price of 221,1 SEK per share (January 2012, issued according to the board resolution adopted at the AGM in March 2009) and 1,065,000 shares with a strike price of 25 SEK per share (August 2012, issued in accordance with the board resolution at the AGM in June 2010). As the stock market price both on average during 2010, and at the 2010 year-end, was lower than the subscription price, there is no dilution as a consequence of these outstanding warrants.

c) Number of shares outstanding, quotient value per share, and the limits of equity capital

At the 2009 and 2010 year-ends, the number of shares outstanding was as follows.

Number of shares	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
Opening balance*	1,765,312	15,000,000	1,765,312	2,653,125
New share issues during the period*	14,251,675	2,653,125	14,251,675	15,000,000
Number of shares outstanding at each year-end	16,016,987	17,653,125	16,016,987	17,653,125
Quotient value in SEK (SEK 11,25 per share in 2010, SEK 10 per share in 2009).	180,191,104	176,531,250	180,191,104	176,531,250

* Prior to the new share issuances during 2010, a reduction in share capital without reducing the number of shares was made that lowered the quotient value of the shares from SEK 10 to SEK 1,125 but did not affect the number of outstanding shares. After the new share issuances in 2010, a reversed split of shares 10:1 was carried out changing the quotient value from SEK 1,125 to SEK 11,25. The opening balance in number of shares above, 1,765,312, and the amount of new shares issued in 2010, 14,251,675, has both been adjusted for the reversed split.

The share capital limits at the 2010 year-end according to the articles of association were not less than TSEK 150,000 and not more than TSEK 600,000. The limit for number of shares was not less than 15,000,000 and not more than 60,000,000. The number of authorised and fully paid shares at the 2010 year end is 16,016,987.

	Group 2010	Group 2009 (restated*)
Share capital	180,191	176,531
Additional paid in capital	143,705	-66,031
Translation difference reserve	-11,404	4,915
Retained earnings, including profit/loss for the year	91,614	83,649
Total equity attributable to the Parent Company's owners	404,106	199,064
Equity per share, SEK	25.23	110.13

CAG completed a rights issue in August 2010. CAG's number of shares increased by 141,225,000 through the rights issue which corresponds to an increase in share capital of TSEK 228,160. At the same time, share capital decreased by TSEK 156,671 with an increase of the share premium without changes in number of shares. After the rights issue, the total number of shares was 158,878,125, each with a quotient value of SEK 1.125, and the share capital amounted to TSEK 178,738. On 8 October 2010, the share capital increased by TSEK 1,453 through a directed share issue of 1,291,742 shares for guarantee providers of the rights issue. In addition, share capital increased by SEK 3.375 (in order that the total number of shares could be divisible by 10 for the purpose of the subsequent consolidation of shares) and the number of shares was increased to 160,169,810. The consolidation of shares 10:1 was carried out on 20 October 2010 in order to meet the listing requirements of NASDAQ OMX First North Premier.

For more details refer to the «Share capital and ownership» part of this report.

* Restated in accordance with Note 29.

Note 19 Provisions

	Group 2010-12-31	Group 2009-12-31
Opening provision for restoration costs	5,228	60
Acquisition values of acquired subsidiaries	—	3,506
Disposal values of sold subsidiaries	-699	—
Additional provisions during the year	1,070	1,662
Total provisions	5,599	5,228
Allocation of provisions for restoration costs in subsidiaries		
LLC Tardan Gold	4,518	4,011
LLC Artelj Lena	1,004	534
LLC Artelj Tyva	—	622
LLC GRE-324	77	61
Total provisions for restoration costs	5,599	5,228

The main portion of the provision for restoration costs refers to LLC Tardan Gold (TSEK 4,518) and is estimated to be utilised at the end of the mining license period, 2015. The provision relating to LLC Artelj Lena (TSEK 1,004) is estimated to be utilized within a period of 3 years.

The amount of the restoration costs for each individual license area is largely dependent on the type of land on which the mining operation in question is located. None of CAG's productive units has its facilities located on land that is sensitive from an environmental or other perspective. The assessment of future restoration costs has primarily been based on the assumptions stated in each license agreement.

A calculation of the present value of restoration costs is performed for each license in each subsidiary on a yearly basis and is based on technical specialists assessment of the amount of work and machinery needed to comply with the restoration requirements in each license agreement.

Note 20 Long-term loans and short-term loans

	Group 2010-12-31	Group 2009-12-31	Parent company 2010-12-31	Parent company 2009-12-31
Loans from shareholder	—	59,487	—	—
Loan from Centerra Gold Inc. under joint venture agreement	5,504	14,802	5,504	14,802
Other loans	1,255	7,381	894	—
Lease liability	3,354	10,012	—	—
Total long-term loans	10,113	91,682	6,398	14,802
Loans from shareholder	—	37,278	—	29,982
Bank loans	106,762	—	—	—
Other loans	364	17,630	—	—
Lease liability	6,409	7,159	—	—
Total short-term loans	113,535	62,067	—	29,982

Finance lease liabilities are payable as follows:

	Group 2010-12-31 Minimum lease payments	Group 2010-12-31 Interest	Group 2010-12-31 Present value of payments
Less than one year	9,042	2,954	6,409
Between one and five years	4,685	126	3,354
Total	13,727	3,080	9,763

	Group 2010-12-31	Group 2010-12-31 Effective interest rate	Group 2009-12-31	Group 2009-12-31 Effective interest rate
Long-term loans received, EUR	—	—	7,978	11%
Long-term loans received, RUR	361	0%	38,931	13%
Long-term loans received, USD	5,504	0%	14,802	0%
Interest payable, EUR	—	—	12,358	—
Interest payable, RUR	—	—	7,601	—
Interest payable, SEK	894	—	—	—
Total long-term loans	6,759	0%	81,670	—
Short-term loans received, RUR	106,996	13%	21,059	10%
Short-term loans received, USD	—	—	14,375	14%
Short-term loans received, SEK	—	—	14,282	30%
Interest payable, RUR	130	—	3,866	—
Interest payable, USD	—	—	11	—
Interest payable, SEK	—	—	1,314	—
Total short-term loans	107,126		54,908	
Total loans received, including interest payable	113,885		136,578	

Maturity analysis in relation to the total contractual, undiscounted cash flows is presented below:

	2011	2012	2013
Bank loans	106,762	—	—
Loan from Centerra Gold Inc. under joint venture agreement	—	5,504	—
Other loans	364	1,255	—
Lease liability	6,409	3,354	—
Total	113,535	10,113	—

Management is continuously working with the financing of the Group's activities and it is the opinion of the Board of Directors that the Group will be able to refinance the bank loans with maturity during 2011. In April 2011, a credit line with a limit of MUS\$ 3.6 with maturity in September 2012 was received by the Group to serve the Groups working capital needs. See note 30.

Note 21 Business combinations

Acquisition of subsidiaries in 2010

The Group has not acquired any subsidiaries during 2010. A new subsidiary, LLC Management Company CAG was started during the year.

Sale of subsidiaries in 2010

During 2010, the Group disposed of its shares in LLC Artelj Tyva and LLC Kara Beldyr as described in more detail below. Furthermore, 3% of the Group's participation in LLC Artelj Lena was sold in August 2010 to Lena Gold LLC for a consideration of TRUR 3 156.

Sale of LLC Artelj Tyva

Based on the Board of Directors' policy of focusing on ore mining, LLC Artelj Tyva has been considered not to be strategic to the Group's core business and is not, therefore, a part of CAG's long-term strategy. Given this assessment by the Board, together with underproduction and a high cost base making the Company unprofitable within the CAG Group, management has made the decision to sell 100% of the shares in LLC Artelj Tyva to LLC «Tech-promzoloto» in October 2010.

The purchase price received was TSEK 2,344.

The disposal of the shares in LLC Artelj Tyva resulted in the following derecognition from CAG's consolidated balance sheet:

	Amounts in TSEK
Intangible assets	306
Property, plant and equipment	4,372
Cash	1,277
Other current assets	897
Liabilities	-16,328
Proceeds from sales	2,344
Gain on disposal	11,819
Impact on consolidated cash flow	1,067

Sale of Kara-Beldyr

In accordance with the joint venture agreement between CAG AB and Centerra Gold Inc. 100% of the shares in LLC Kara Beldyr were transferred to the joint venture, Awilia Enterprises Ltd in October 2010. CAG owns 50% of the shares in the Joint Venture company Awilia Enterprises Ltd and Centerra Gold Inc. own the remaining 50% of the shares. The consideration received by CAG for the transfer of the shares in LLC Kara Beldyr amounted to TSEK 36 397 based on the cash received (through liabilities forgiven by Centerra) and the assessed fair value of the 50% participation in the joint venture company Awilia Enterprises Ltd.

The disposal of 100% of the shares in LLC Kara Beldyr resulted in the following derecognition from CAG's consolidated balance sheet.

	Amounts in TSEK
Intangible assets	16,232
Property, plant and equipment	1,290
Cash	97
Other current assets	1,704
Liabilities	-1,210
Proceeds from sales	36,397
Gain on disposal	18,284
Impact on consolidated cash flow	10,903

Acquisition of subsidiaries in 2009

On 2 March 2009 Central Asia Gold AB completed the merger with the five so called NMC companies. In the merger, the owners of the NMC companies contributed the entire share capital of these 5 companies, as well as an equity injection of some MUSD 10 in the companies prior to the merger in exchange for 3,000,000,000 ordinary shares issued by CAG (after the reversed split 200:1 with the consolidation of shares 10:1, the total number of shares is 1,500,000). In addition, CAG issued 510,650 million warrants with the right to acquire 1,315,000 shares, of which 450,000 shares with a strike price of SEK 221.1 per share (January 2012, issued according to the Board resolution adopted at the AGM in March 2009) and 1,065,000 shares with a strike price of SEK 25 per share (August 2012, issued in accordance with the Board resolution adopted at the AGM in June 2010).

After the successful completion of the merger, the financial statements have been prepared using the accounting model for "reversed acquisitions" as the two shareholders of NMC owned 85% of CAG following the transaction. This accounting treatment requires NMC companies to be treated as the acquirer in the consolidated accounts and CAG being treated as the seller. As a consequence, the assets and liabilities of CAG, comprising the legal parent, have been recorded at fair value initially in the consolidated financial statements. The assets and liabilities of the legal subsidiaries, the 5 NMC companies, have been recognized and measured in the combined financial statements at their pre-combination carrying amounts. The comparative financial information for the twelve month period in 2008 represents the NMC companies' financial statements for these periods. CAG as the legal parent continues to be reported as the Parent Company in the financial reports.

The consolidated CAG and NMC companies' financial statements have been prepared starting from the third month of the first quarter of 2009 using the prescribed accounting model. As a reversed acquisition model has been used in the consolidated financial statements for the quarter ended 31 March 2009, the cost of the combination was determined based on the number of CAG AB shares existing at the completion date. On 2 March, the fair value of the existing 530,625,000 CAG shares was equal to TSEK 31,838. The directly attributable merger costs incurred both by CAG and NMC companies amounted to TSEK 7,000. As a result, the total cost of combination was estimated at TSEK 38,838. The total cost of combination has been allocated to CAG's assets and liabilities. The book values and fair market values of the acquired assets and liabilities of CAG are presented in the table below.

For the period 2 March 2009 to 31 December 2009, the income for the acquired companies was TSEK -26,652. The revenues were TSEK 116,528 and the costs after tax were TSEK 143,090. For the period 1 January 2009 to 31 December 2009, the result for the acquired companies was TSEK -39,720. The revenues were TSEK 118,143 and the costs were TSEK -157,863. The impact on the annual income if the merger had been undertaken on 1 January 2009 instead of 2 March would have been that the results would have decreased by TSEK 13,158.

	Book values	Fair values
Intangible assets	107,721	107,671
Property, plant and equipment	76,787	76,787
Financial assets	20,091	20,091
Current assets	116,526	111,413
Cash and cash equivalents	7,885	7,885
Deferred tax	-30,619	-30,619
Current liabilities	-40,521	-41,224
Non-current liabilities	-16,314	-16,314
Deduction for minority shares	-1,456	-1,456
Net assets	240,100	234,233
Total cost of acquisition		-38,838
Goodwill arisen	–	195,396
Effect on the Group's cash and cash equivalents	–	7,885

During the financial crisis in the autumn of 2008, the CAG Group had an urgent requirement of liquidity for Q4 2008. The market valuation of the Company at that time was low compared with long-term valuation of the assets in the Company. Negative goodwill arose due to these circumstances. The fair value calculation above is the final acquisition calculation.

Sale of subsidiaries in 2009

No subsidiaries were sold during 2009.

Note 22 Cash and bank holdings

Cash and cash equivalents of TSEK 22,230 (TSEK 22,732) relates to Group cash and bank balances. In the Parent Company, cash and cash equivalents of TSEK 10,945 (TSEK 14,794) relates similarly to cash and bank balances. An exchange gain of TSEK 337 (loss TSEK 75) refers to exchange gain in cash and cash equivalents for the Group, exchange loss of TSEK -1,052 (gain TSEK 264) for the Parent Company.

Note 23 Adjustments for non cash items

	Group 2010-12-31	Group 2009-12-31	Parent company 2010-12-31	Parent company 2009-12-31
Depreciation on buildings	-3,519	-4,141	–	–
Depreciation on machinery, equipment and other technical plants	-17,023	-17,790	–	2
Depreciation on machinery, equipment and other technical plants capitalised as part of intangible fixed assets	1,261	1,751	–	–
Amortisation of intangible assets	-4,028	-2,632	–	–
Dissolution of negative goodwill	–	195,396	–	–
Income from sale of subsidiaries	29,132	–	7,762	–
Other	316	–	630	–
Total	6,139	172,584	8,392	2

Note 24 Accrued expenses

	Group 2010-12-31	Group 2009-12-31	Parent company 2010-12-31	Parent company 2009-12-31
Accrued fees	–	312	–	312
Accrual for employee benefit expenses	7,649	9,021	105	213
Other accruals	–	2	–	2
Total	7,649	9,335	105	527

Note 25 Financial assets and liabilities

The Group classifies its financial assets and liabilities in the following categories; financial assets valued at fair value via the income statement, loans and trade receivables, financial assets that can be sold and other financial liabilities.

Financial assets valued at fair value via the income statement

Financial assets held for trading reported in the balance sheet are valued at the closing day rate. The Group currently has no assets classified as financial assets valued at fair value via the income statement.

Loans and trade receivables

	2010-12-31 Fair value	2010-12-31 Reported value	2009-12-31 Fair value	2009-12-31 Reported value
Cash and cash equivalents in SEK	10,945	10,945	14,794	14,794
Cash and cash equivalents in Euro	–	–	3	3
Cash and cash equivalents in USD	–	–	1	1
Cash and cash equivalents in RUR	11,285	11,285	7,934	7,934
Total cash and cash equivalents	22,230	22,230	22,732	22,732

	2010-12-31 Fair value	2010-12-31 Reported value	2010-12-31 Maximum credit risk	2009-12-31 Fair value	2009-12-31 Reported value	2009-12-31 Maximum credit risk
Accounts receivable	2,467	2,982		2,480	3,579	
Less, provision for impairment of accounts receivable		-515			-1,099	
Accounts receivable, net	2,467	2,467	2,467	2,480	2,480	2,480
Other current receivables	4,124	4,124	4,124	1,700	1,700	1,700
Total cash and cash equivalents	22,230	22,230	–	22,732	22,732	–
Total accounts receivable and loans receivable	28,821	28,821	6,591	26,912	26,912	4,180

Movements on the Group provision for impairment of accounts receivable are as follows:

	Group 2010	Group 2009
As at January 1	1,099	972
Receivables written off during the year	–	-562
Provision for impairment of receivables	2,153	737
Translation difference	-183	-48
As at December 31	3,069	1,099

There are no financial assets which were past due at the end of the reporting period but not impaired. The individually impaired receivables mainly relate to counterparties which are in unexpectedly difficult economic situations.

Financial assets that can be sold

Financial assets in this category are continuously measured at fair value and changes in fair value are reported in equity under other comprehensive income. The Group currently has no assets classified as Financial assets that can be sold.

Other financial liabilities

Other financial liabilities relate to accounts payable to suppliers, other short-term interest-bearing liabilities and other long-term interest-bearing liabilities.

	2010-12-31 Fair value	2010-12-31 Carrying amount	2009-12-31 Fair value	2009-12-31 Carrying amount
Accounts payable to suppliers	31,041	31,041	21,080	21,080
Loans received	113,885	113,885	136,578	136,578
Lease liability	9,763	9,763	17,171	17,171
Total other financial liabilities	154,689	154,689	174,829	174,829

Maturity structure of financial liabilities as at 31 December 2010:

	> 1 year from reporting date	> 1 year but < 5 years from reporting date	> More than 5 years
Accounts payable to suppliers	31,041	–	–
Loans received	107,126	6,759	–
Lease liabilities	6,409	3,354	–
Total financial liabilities	144,576	10,113	–

Interest rates for lease liabilities are fixed. Interest rates on loans received from banks are fixed during the terms of the loan and the Group is, therefore, not currently directly exposed to an interest rate risk. If the bank were to change the fixed interest rate on the loans received during the terms of the loans, an increase in the interest rate from 13 per cent to 18 per cent would increase the yearly interest expense by TSEK 5,350. The bank loans with fixed interest rates will mature during the second half of 2011. In April 2011, the Group has received a credit line of MUS\$ 3.6 with a 16 per cent annual interest rate that will serve the current and short-term working capital requirements of the Group.

The Company is exposed to foreign exchange risk in relation to net financial items denominated in foreign currencies.

Financial assets and liabilities of the Company by currency:

	2010-12-31 SEK	2010-12-31 RUR	2010-12-31 USD	2010-12-31 Total
Cash and cash equivalents	10,945	11,285	–	22,230
Accounts receivable	–	2,467	–	2,467
Loans receivable	–	556	–	556
Total financial assets	10,945	14,308	0	25,253
Loans, including interest payable	-894	-107,487	-5,504	-113,885
Financial lease	–	-58	-9,705	-9,763
Accounts payable	–	-31,041	–	-31,041
Total financial liabilities	-894	-138,586	-15,210	-154,689
Net financial items	10,051	-124,277	-15,210	-129,436

The sensitivity analysis of loss before tax to foreign exchange risk is shown in the table below:

RUR 2010-12-31	RUR 2010-12-31	USD 2010-12-31	USD 2010-12-31
Changes in exchange rate, %	Effect on loss before income tax	Changes in exchange rate, %	Effect on loss before income tax
+10%	-12,428	+10%	-1,521
-10%	+12,428	-10%	+1,521

Sensitivity analysis – Market risk

The table below presents an estimate of the impact on the profit/loss of changes in market conditions one year in the future, based on the reporting date conditions as at 31 December 2010. The estimate is based on an assumed production volume of 1400 kg pure gold during 2011, while the production target for 2011 is currently 1,400 – 1,600 kg pure gold. The reporting date conditions for 2011 include a gold price of 1 440 USD/oz and a USD/SEK exchange rate of 6.8.

Change in price of gold in USD by:	Effect on operating profit/loss
+10%, other things being equal	41,428
-10%, other things being equal	-41,428

Note 26 Transactions with related parties

The majority shareholder and the ultimate parent of CAG AB is Bertil Holdings Limited owning approximately 63% of the shares in the Company. Bertil Holdings Limited is a company controlled by the CEO, Preston Haskell who is CAG's ultimate controlling party. The remaining 37% of the shares in CAG are held among approximately 3 800 shareholders.

Sales to related parties

CAG has sold goods and services to companies related to the ultimate controlling party, Preston Haskell and to companies related to former Board Member, Maxim Kondratyukin. All sales have been made on the basis of normal market conditions.

Purchases from related parties*Services, materials and equipment*

During 2010, equipment has been rented and subsequently purchased by CAG subsidiaries from companies related to the ultimate controlling party, Preston Haskell.

Exploration services have been purchased from companies related to the former Board Member, Maxim Kondratyukin.

The purchase of services and equipment has been made at normal market conditions.

Management services

During a period until 1 June 2010, Central Asia Gold outsourced all management services in Russia to a company related to the ultimate controlling party, Preston Haskell. From 1 June 2010, these services are provided by the wholly owned subsidiary, LLC Management Company CAG. In 2010, CAG incurred a total fee of TSEK 3,516 (TSEK 0) for management services from companies related to the ultimate controlling party, Preston Haskell.

In 2010, the Parent Company also purchased services referring to financial advice in the amount of TSEK 276 from a company related to the Chairman of the Board, Lars Guldstrand.

Central Asia Gold also purchased management services amounting to TSEK 894 from management personnel in Sweden.

These management services have been purchased on normal market conditions.

Financing

Additional financing in an amount of MSEK 12 was provided in March-April 2010 to enlarge the working capital of the Group and a loan of TUSD 1,145 related to merger expenses was received from companies related to the ultimate controlling party, Preston Haskell. The annual interest rate for both loans was 16% and both loans were included in the offset of debts against shares issued in the new share issue in 2010 in accordance with the decision taken at the Annual General Meeting on 28 June 2010. In total, shares representing approximately MSEK 126 of the total MSEK 226 issued were paid for by offsetting debts held with companies related to Preston Haskell.

Investment

Central Asia Gold AB transferred funds in amount of TSEK 5 486 received from Centerra Gold Inc. to Awilia Enterprise Limited under the joint venture agreement with Centerra Gold Inc. See note 13 for further details.

The table below summarises transactions undertaken with related parties during the year:

	2010	2009
Sales to related parties:		
Sales to companies related to the ultimate controlling party	580	765
Sales to companies related to Board members	180	5,928
Financial income from related parties:		
Interest received from companies related to the ultimate controlling party	65	186
Purchases from related parties:		
Purchases from companies related to the ultimate controlling party	18,868	8,716
Purchases from companies related to Board members	7,323	6,359
Purchases from management personnel	894	404
Interest expenses to related parties:		
Interest to companies controlled by the ultimate controlling party	1,452	4,035
Balances with related parties at the end of the year	2010	2009
Receivables from		
Companies related to the ultimate controlling party	2,911	1,111
Companies related to Board members	1,012	238
Joint Venture companies	5,486	–
Liabilities to		
Companies related to the ultimate controlling party	1,382	103,716
Companies related to Board members	–	1

Note 27 Pledged assets and contingent liabilities

Pledged assets of TSEK 53,336 refer to property, plant and equipment pledged to the Russian bank Svyaz-Bank as collateral for a loan granted to the subsidiaries LLC Tardan Gold and LLC GRE-324 (for LLC Rudtechnology and LLC Gold Borzia). In 2009, pledged assets of TSEK 7,381 referred to property, plant and equipment pledged to the Russian bank Sperbank as collateral for a loan granted to the subsidiary LLC Tardan. Pledged assets of TSEK 50 (50) refer to credit cards for Parent Company bank accounts.

Capital commitments of the Group totalling TSEK 31,436 (0) refer to agreements with suppliers of equipment to the subsidiaries, LLC Tardan and LLC Solcocon.

Note 28 Non-controlling interests

Non-controlling interests in the Group companies at year end 2010:

Group companies	Non-controlling interest, %	Non-controlling interest of equity in the Group	Non-controlling interest portion of net income
Subsidiaries			
LLC Tardan Gold	0.00%	0	—
LLC Artelj Lena	8.31%	1,405	-276
LLC Uzhunzhul	0.00%	0	—
LLC GRE-324	0.00%	0	—
LLC Solcocon	0.00%	0	—
LLC Borservice	0.00%	0	—
LLC Gold Borzia	0.00%	0	—
LLC Rudtechnology	0.00%	0	—
LLC Management Company CAG	0.00%	0	—
Total Non-controlling interests		1,405	-276

Occurrence of the non-controlling interest in LLC Artelj Lena

The background to the original non-controlling interest of 5.3% in LLC Artelj Lena is that some previous members of the Artelj Lena's workers' collective appealed to the courts, accusing the previous company management of wrongly excluding them from LLC Artelj Lena. The issue is complicated, as the case refers to a legal entity that no longer exists, namely the Workers' collective Artelj Lena. The dispute resulted in a number of court orders made during the previous financial year. In several cases, the former members of the workers' collective in dispute lost their case. However, in one case, a court order resulted in a number of former workers being registered as owners to 5.3% of the now reorganised company LLC Artelj Lena. In 2008-2010, Central Asia Gold's and LLC Artelj Lena's legal representatives undertook comprehensive legal work aiming to minimise the effects of this minority case.

3% of the shares in LLC Artelj Lena were sold in August 2010 to Lena Gold LLC for TRUR 3,156. However, the purchaser, Lena Gold LLC, has not fulfilled the obligations specified in the purchase agreement. Therefore, it was decided not to proceed with further negotiations with Lena Gold LLC concerning the sale of shares in LLC Artelj Lena. In March 2011, the 3% of shares sold in 2010 was repurchased by CAG for TRUR 3,156.

Note 29 Restatement of prior years' accounts

The accounts for 2009 have been restated with regards to an error in the provision for inventory of TSEK 4,644 included in the previously presented financial statements for 2009. The restatement has had the following impact on the previously published accounts.

Other external expenses have been reduced from the previously reported TSEK -124,679 to TSEK -120,035 and operating income has, consequently, improved from TSEK 163,066 to TSEK 167,710. Net income in the restated income statement amounts to TSEK 146,933 compared to TSEK 142,289. The restatement has not had any effect on non-controlling interests.

In the balance sheet, the restated amount of inventory amounts to TSEK 90,070 compared to previously reported inventory value of TSEK 85,426. Correspondingly, retained earnings have increased from the previously reported TSEK 79,005 to TSEK 83,649 in the restated financial statements. Total assets after restatement amount to TSEK 445,807 compared to TSEK 441,163.

The restatement has not had any impact on the consolidated cash flow, other than a reclassification between cash flow from operating income and cash flow from changes in inventory.

Note 30 Significant events after the reporting period

LLC Artelj Lena

A partnership agreement between the specialised alluvial mining company, LLC Sibirskoe Zoloto, and LLC Artelj Lena was signed in February 2011. According to the agreement, the partner has guaranteed a RUR 150 million line of credit to LLC Artelj Lena, part of which will be used for equipment renewal and exploration in 2011. According to the agreement, the partner will be responsible for mining operations and cover production costs in 2011, in exchange for 85% of Lena's revenue.

A share purchase agreement for 3% of the shares in LLC Artelj Lena was signed between Lena Gold LLC and LLC Tardan Gold in August 2010. In March 2011, LLC Tardan Gold repurchased the 3% of shares in LLC Artelj Lena sold in 2010, for the same amount as it was sold.

A share purchase agreement for 30% of the shares in LLC Artelj Lena with a purchase price of MRUR 30 has been signed between LLC Tardan Gold and LLC Sibirskoe Zoloto in April 2011.

LLC Artelj Lena Credit line

A one year MRUR 150 credit line with a 12.5% annual interest rate was approved by ATB bank for LLC Artelj Lena in February 2011.

Loan from related parties

In April 2011, Golden Impala Ltd, a company related to the ultimate controlling party of CAG, Preston Haskell, opened a credit line with a limit of MUSD 3.6 with a 16% annual interest rate. The credit line will serve the current and short-term working capital requirements of Central Asia Gold. The maturity of the credit line is in September 2012.

Environmental penalty

In March 2011, the Group were charged with a penalty of MRUR 1 from environmental authorities in Russia due to the use of cyanide prior to the approval of the cyanide permit; the penalty was paid in April 2011. CAG applied for the cyanide permit with the authorities in 2010 and is expected to receive approval during 2011.

Board assurance

The Board and the Chief Executive Officer confirm that the consolidated financial statements and the annual report, respectively, have been prepared in accordance with the international accounting standards in the European Parliament and Council decree (EC) no. 1606/2002 of 19 July 2002 concerning the application of international accounting standards and good accounting practice, respectively, and that they give a true and fair view of the Group's and the Parent Company's results and financial position.

The directors' report for the Group and the Parent Company, respectively, gives a true and fair view of the Group's and the Parent Company's activities, results and financial positions, and describes significant risks and points of uncertainty faced by the Parent Company and the companies within the Group.

Stockholm, 11 May 2011

Lars Guldstrand
Chairman of the Board

Preston Haskell
Managing Director / Board member

Mike Nunn
Member

Patric Perenius
Member

Alice Volgina
Member

The annual report and the consolidated financial statements have, as stated above, been approved for issue by the Board on 11 May 2011. The Group's income statement and balance sheet, and the Parent Company's income statement and balance sheet will be subject to ratification at the annual general meeting on 31 May 2011.

Our audit report was submitted on 11 May 2001

Öhrlings PricewaterhouseCoopers AB

Martin Johansson
Authorised Public Accountant

Auditor's report

(Translation of the auditor's report in Swedish, approved by Far in January 2011)

To the Annual General Meeting of Central Asia Gold AB (publ)

Corporate identity number 556659-4833

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Central Asia Gold AB (publ) for the year 2010. The Company's annual accounts and the consolidated accounts are included in the printed version of this document on pages 18–64. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge

from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheet of the parent company and the group be adopted, that the profit loss of the parent company be dealt with in accordance with the proposal in the statutory administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm, 11 May 2011

(signature on original document)

Martin Johansson
Authorized Public Accountant

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