Central Asia Gold

ANNUAL REPORT FOR THE FINANCIAL YEAR 2008

Translation

This English annual report is a translation of the Swedish annual report for 2008. 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 2009

Central Asia Gold AB's financial year runs from 1 January to 31 December. During 2009, the Company will issue interim financial information as follows:

Year-end report:	27 February 2009
Interim report (1) Jan–Mar 2009:	27 May 2009
Interim report (2) Jan–Jun 2009:	27 August 2009
Interim report (3) Jan–Sep 2009:	27 November 2009

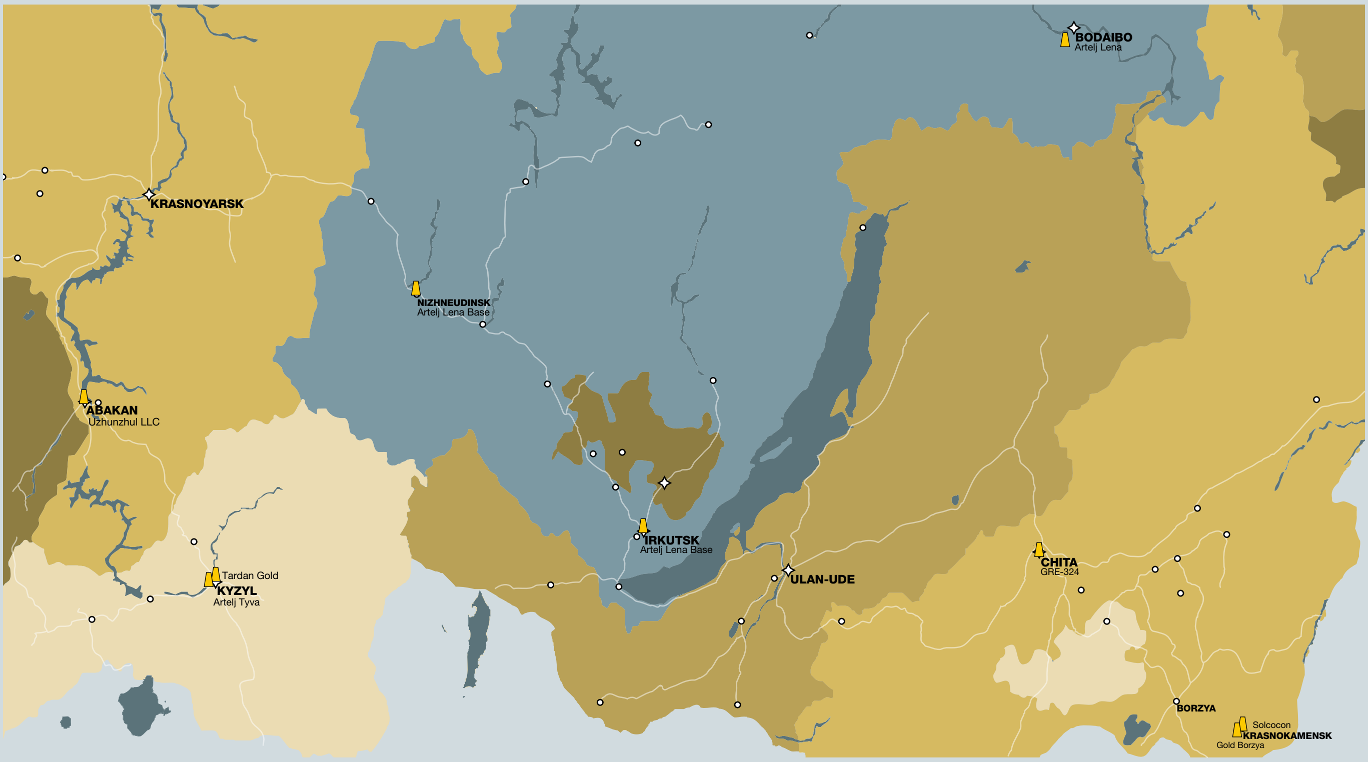
2009 Annual General Meeting

The Annual General Meeting will be held on Wednesday 27 May in Stockholm at Näringslivets Hus, 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 20.05.2009. In order to participate in the AGM, nominee shareholders must temporarily re-register their shares via their nominee into their own names by 20.05.2009. This should be done in good time.

ii) Notify of their participation to the Company by 25 May 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, Brovägen 9,SE-182 76 Stocksund. 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.

Cover photograph: Dore gold nuggets made by CAG AB's subsidiary, OOO Tardan Gold


BODAIBO
Artelj Lena
KRASNOYARSK
NIZHNEUDINSK
Artelj Lena Base
ABAKAN
Uzhunzhul LLC
Tardan Gold
KYZYL
Artelj Tyva
IRKUTSK
Artelj Lena Base
ULAN-UDE
CHITA
GRE-324
BORZYA
Solcocon
KRASNOKAMENSK
Gold Borzya

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Comments by the former Chief Executive Officer

Dear Central Asia Gold AB shareholders,

The past year was dramatic, and as a result of a necessary strategy review Central Asia Gold AB was divided into a purely prospecting part – Kopylovskoye AB, and a production part – Central Asia Gold AB. The latter company was merged at the end of the first quarter of 2009 with the Russian gold company NMC. At the end of the 2008 financial year Kopylovskoye AB was distributed to the shareholders on a pro-rata basis. All shareholders in Central Asia Gold consequently now have two shares instead of one. Let us now look in a little more detail at the past year. This will then be followed by the new CEO's and the new principal owner's view of CAG's future.

The global economy in 2008

The year 2008 was the second year in a row of heavy losses on the global financial markets. Few observers had expected such a major negative development after the corrections that had already taken place in 2007. The U.S. mortgage crisis, however, spread across the entire world via the global banking system, where liquidity dried up. Large parts of the global banking system collapsed and had to be taken over by the governments of the countries concerned. In the U.S. an unprecedented event occurred when a leading investment bank, Lehman Brothers, was allowed to fail. In Sweden, the crisis resulted in a total stock market decline of over 40% in 2008 following a decline of 15% in 2007. This is the largest stock market fall recorded in a single year in modern times.

Russia

In Russia, where Central Asia Gold's subsidiaries operate, the year was characterised by extreme events. The price of oil, which is critical to Russia's economy, initially rose steeply in the first six months from a level of USD 95/barrel at the beginning of January to a peak of just under USD 150/barrel at the beginning of July. This is the highest oil price ever recorded. Money consequently flooded into the Russian economy and the Russian Central Bank's hard currency reserves grew, becoming the third largest in the world. The development of the oil price also resulted in a substantial rise in the Moscow stock market in the first six months, with the peak being reached at the end of May 2008 when the RTS stock market index was at around the 3,000 level.

After that, when the oil price began to fall steeply as a result of the economic downturn that market participants correctly began to discount, the Moscow stock market also collapsed. The fall from the peak in May to the end of December was almost 80%. That is almost as big as the collapse seen during the Asian crisis of 1998 – although at that time the fall from the peak to the bottom took almost a year. In 2008 it took half that time. It should also be noted that political events such as the brief war between Russia and Georgia during the late summer also contributed to the negative train of events. The crisis of 2008/2009 in Russia, however, differs in character from the crisis 10 years ago. In 1998 the economy of the Russian State was severely imbalanced, with a budget deficit and very significant foreign borrowing. At that time the Russian private sector had very low levels of debt. Now, at the beginning of 2009, the Russian State effectively has no borrowing while Russian business has fairly high levels of debt. Russian companies thus face a dangerous liquidity crisis as loans fall due for payment and demand for their products falls. The Russian government has therefore been forced to provide emergency loans via the state banks to many large companies so that they remain solvent. The same emergency lines of credit are unfortunately are not available to smaller companies.

Development in Central Asia Gold's subsidiaries in 2008

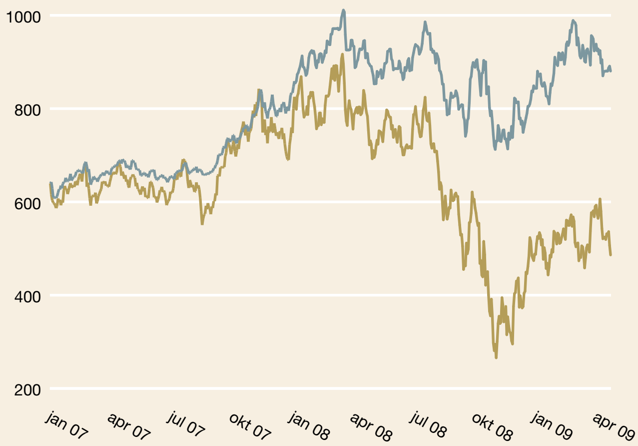
Operations at our gold producing companies did not develop fully according to plan in 2008. They produced a total of 834 kg compared with 1,073 kg in 2007. Thereby CAG in 2008 became Russian gold producer number 26 out of a total of more than 400 companies. Our alluvial subsidiaries were first hit by a cost increase when the price of diesel rose in the first six months. The two alluvial subsidiaries use more than 6,000 tons of diesel (more than 6 million litres) a year. In the spring and summer of 2008 the price of diesel fuel rose to a level that was about 50% higher than that budgeted for at the beginning of the year. This corresponds to almost half a dollar per litre of diesel fuel. Although the average price was not 50% higher over the entire year, due to the underlying volume this cost component clearly had a negative effect on earnings for 2008. Unfortunately diesel fuel was not the only cost that rose during the year. Russian inflation (consumer price index) once again experienced a double-digit increase. The consumer price index rose by more than 13% for the full year. Moreover, producer prices in many cases rose even more. Meanwhile, the indirect effect of Russian inflation also became serious. The result was that – specifically during the first six months of 2008 when the Russian labour market was at its peak – many experienced specialists in the subsidiaries simply changed work to gain more tolerable working conditions. In such circumstances it is not only wages that are the deciding factor.

As a result, many less experienced workers had to be employed in the subsidiaries, which had a detrimental effect on productivity. This was something that affected the industry as a whole and was not unique to Central Asia Gold. For 2009 the external factors outlined below are radically different – the price of diesel and the rouble exchange rate have fallen significantly compared with the previous year, the price of gold has risen and unemployment in Russia is now increasing for the first time in a long while. Consequently, conditions are in place for better profitability going forward.

Mining operations at Tardan

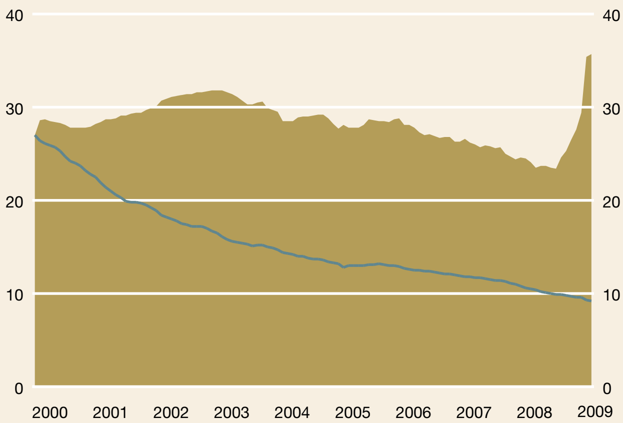
Operations at Tardan gave cause for both disappointment and satisfaction in 2008. In November the Russian geological authorities carried out a new, long-awaited review of gold reserves, which was also obligatory according to the license agreement. An opinion was given on all the new geological data that was collected by CAG in the years 2004-2008. The result was that almost 2 million tons of ore reserves corresponding to 8.4 tons of gold reserves C1/C2 were registered. The average gold grade is 4.29 g/t for ore and the cut-off grade is 0.5 g/t. The previous estimate of reserves from the late Soviet/early Russian period at the beginning of the 1990s was barely 700,000 tons of ore with an average grade of just over 10 g, corresponding to 7.4 tons of gold reserves. The recent years' work has thus meant that greater gold reserves have been shown to exist, but with a lower average grade than previously assessed. Conversely this means, however, that the present gravimetric plant on site cannot in the long term be used to extract all of the gold. Instead, a new processing unit, a heap leaching plant, must be constructed for extracting gold economically. The Russian economic feasibility study carried out in the autumn of 2008 showed that the project should be profitable given the quantities of gold and the cost levels then assumed. If the current greatly weakened rouble exchange rate continues in the long-term this should have a positive effect on the project's profitability. Future prospecting results would also be key to how profitable the project will be. Only a limited part of the first license block of 3 square kilometres has been subject to the reserves assessment and only to a depth of just over 100 m. There then remains the larger outlying license block of 520 square kilometres where a quantity of gold mineralisations have already been proven. In short, the Russian feasibility study indicates that the present gold reserve quantities are profitable. If additional gold reserves are proven the project could be highly profitable. The future will tell.

The gold spot price in USD/oz compared with AMEX Gold Mining Index (normalised) Jan 2007 – April 2009.



Gold price shown by blue line and AMEX Gold Mining index (normalised) by gold line.

The real exchange rate of the rouble against the USD January 2000 – February 2009.



Nominal excange rate RUR/USD in gold area. Real excange rate shown by blue line.

The rise in the price of gold and the fall in the rouble are positive for CAG

The response to the fall in the oil price and the downturn in the Russian economy has been a significant weakening of the rouble. The rouble does not have a fixed exchange rate, but is instead partly controlled by the Russian Central Bank. The strong currency outflows from Russia following the crisis have meant that the exchange rate has had to be gradually reduced. The average exchange rate against the U.S. dollar in 2008 was around RUR 24.9. At the time of writing the exchange rate is RUR 34. That corresponds to depreciation against the dollar of almost 30% compared with the previous year! This is an extremely large exchange rate adjustment, which means that the cost level in Russian companies, including Central Asia Gold's subsidiaries, expressed in dollars is falling significantly in 2009 compared with 2008. At the same time, the average price of gold internationally was around USD 880/oz in 2008. The current price is about USD 900/oz. Thus, all the cost and revenue indicators are currently pointing in the right direction for the new Central Asia Gold group. This is major change from the previous year.

The merger with NMC

In the spring of 2008 the Board of CAG AB identified the group's need for external capital. The aim of the new share issue which was then announced was to generate almost SEK 100 million to start the construction of the necessary leaching plant at Tardan and to repay certain loans at the subsidiary level. Since there was a less favourable climate for issuing shares as early as the spring of 2008 the issue was structured into two phases by means of units. The first two-thirds of the issue was thus made in July 2008, while it was planned for the remaining third to be made in December 2008 via the warrants included in the units. Unfortunately the situation developed unfavourably in the second half of the year and the warrants thus matured without value. Furthermore, CAG's gold production was lower than assessed at the beginning of the year. CAG therefore faced further financing requirements. The Board consequently notified the shareholders in autumn 2008 that there were three main solutions to resolve the situation – namely, to carry out an additional new share issue, to sell existing assets or to find an external partner. Finally, after much work and negotiations, it was deemed that a merger with the Russian gold company NMC could provide CAG with the external partner it was looking for. NMC is described in more detail further on in the annual report. NMC brings with it two new mine deposits, one of which is at an early stage of production and one of which is an alluvial deposit that is in production. In total it is assessed that they comprise about 20 tons of gold reserves according to Russian standards. In addition, NMC also brings with it its company management and, perhaps most importantly, its main owner – American businessman Preston Haskell, who introduces himself further on in the report.

Distribution of Kopylovskoye AB

Before the merger with NMC, a decision was taken by an extraordinary general meeting of CAG AB to spin off the shares in the subsidiary Kopylovskoye AB to its own shareholders. The distribution of Kopylovskoye was thus carried out at the very end of 2008. For each share in CAG AB shareholders received one share in Kopylovskoye AB. This company is a prospecting project and primarily includes a deposit of the same name. There are already 7.4 tons of gold reserves C1/C2 proven at the deposit according to Russian standards. These are situated in a 300 m long orebody of an average width of about 50 m. The established depth of the orebody, or rather the mineralisation, is currently only about 30 m. What is of interest, however, is not the proven reserves, but the possible increases in them in the future. The Kopylovskoye deposit is situated in the Bodaibo district of Russia and neighbours the second-largest gold deposit in the world according to unanimous assessments. The gold deposit is called Sukhoi Log and belongs for the time being to the Russian State. A number of independent geologists have been at the Kopylovskoye deposit in 2008 to carry out assessments. Their opinion is that the deposit looks interesting and has relatively good prerequisites to ultimately be an economically profitable investment. The risks in gold prospecting are, however, generally very high, and it is not advisable to promise future results. The conclusion of Central Asia Gold's Board was, however, that the potential is of such a scale that it is logical to distribute it for free to the existing shareholders in CAG instead of including it in the merger with NMC. As a result, Kopylovskoye AB now has almost 5,000 shareholders. There will be more information about Kopylovskoye on the company's website at www.kopylovskoye.com.

Joint Venture with Centerra Gold covering the Kara-Beldyr project

Although 2008 was a difficult year, CAG attained a degree of success with the Kara¬-Beldyr project situated in Tyva. The project contain more than 1 million ounces of gold based on the Russian classification of gold resources, although this generally does not give an indication of the real potential of the project. A better indication of the potential of the project may be the fact that in September 2008 CAG entered into a joint venture agreement regarding the Kara-Beldyr project with the large Canadian gold company Centerra Gold Inc. Centerra Gold is publicly listed in North America and is one of the world's 20 largest producers of gold. Centerra Gold currently produces more than 20 tons of gold a year from their mines in Kyrgyzstan and Mongolia. The agreement with Centerra Gold gives Centerra the right, but not an obligation, to invest up to USD 6.5 million in the project over a number of years. If Centerra Gold completes this investment Centerra Gold would earn up to a 70% ownership in the Kara Beldyr project. Centerra Gold is the operator of the project for the duration of the agreement. In 2008 Centerra Gold carried out geophysical and geochemical surveys, and in the first quarter of 2009 a shallow surface drilling program has been carried out, and a more extensive deeper diamond drill progam is planned during the second half of the year. The project is at an early stage, but CAG's assessment is that this project has excellent potential.

Summary

The situation in the global economy, including the mining sector, deteriorated dramatically in 2008. As large sections of the world's banks, automotive producers and other sectors are either nationalized or fail, the conditions for smaller companies such as Central Asia Gold AB are also changing. Put bluntly, ambitions, at least in the short term, need to change from expansion to survival. We started the 2008 financial year with a certain sense of concern regarding the economic situation. Unfortunately, the worst fears were realised. The merger with NMC makes Central Asia Gold a substantially larger company with a now predominant American main owner. I consider that this is the right way to go for our company in the situation that has arisen, and that assessment is shared by all the shareholders of CAG who voted for the merger at the general meeting of shareholders in December 2008.

Torbjorn Ranta
Former Chief Executive Officer

Comments by the new Chief Executive Officer

Dear shareholder in Central Asia Gold AB!

Background

My name is Sergey Gorbachev, and I have been appointed the new Chief Executive Officer of Central Asia Gold AB from March this year. As the name indicates, I am a Russian citizen and I was born in 1973. Let me also state right away that I am not related to Mikhail Gorbachev, the last General Secretary of the Soviet Union.

Sweden is not unknown to me – on the contrary. I was a regular visitor to Stockholm during the 2000–2004 period, when I worked at a Russian-Swedish electrical trading company. Later on, however, I was asked by the American entrepreneur Preston Haskell, now Chairman of the Central Asia Gold AB, to be Chief Executive Officer of his Russian gold group the New Mining Company (NMC). I have held that position for two years. The head office of NMC is located in Moscow, which is also my home town.

The NMC companies and their assets

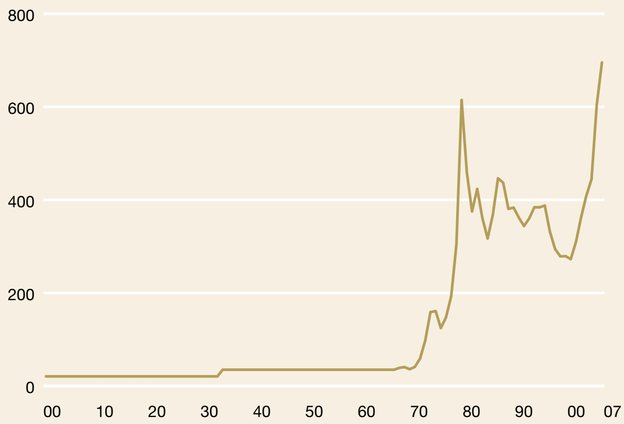
Now that CAG and NMC have merged it is the perfect time to provide a little information about NMC's assets and organisation. The merger has provided Central Asia Gold AB with five new subsidiaries. The principal asset in the company is the geological license for the gold prospecting block ”Staroverinskaya Area” in the north-eastern part of the Tchita region in eastern Siberia. Tchita is, as are other regions in the eastern parts of Russia, large in area and sparsely populated. The capital town in the region is called Tchita, and there are a couple of hundred thousand inhabitants.

The license block of NMC and now CAG is located about 700 km northeast of the regional capital near the border with China. Tchita is one of the leading gold producing regions in Russia. The license block is circa 220 square kilometres in size. Today there are two identified mining gold deposits with established gold reserves here. Furthermore, there is an alluvial gold deposit. In 2008, NMC produced ca. 270 kg of gold from one alluvial deposit and from one of the mines. At the producing mine, Bogomolovskoye, 8.1 tonnes of gold reserves were proven in December 2008 in the Russian category C1/C2. At the other mine deposit, Kozlovskoye, 10.8 tonnes of gold reserves were proven in the 1960s. According to the current schedule, Kozlovskoye will undergo a new Russian reserves study in this year, and our assessment is that the new reserves will be in line with the older figure. Finally, our alluvial deposit, Zolotaya Borzya, contains just over 2 tonnes of gold reserves C1/C2 and production here is expected to increase substantially in 2009. All in all NMC will therefore provide CAG AB with about 20 tonnes of gold reserves in 2009. It is also important to point out that we expect further gold reserves in the license block. Tchita is one of Russia's leading regions with regard to uranium. This is why major prospecting work was carried out in the region, including NMC's license block, in general, mainly during the Soviet era, to identify more uranium. This work uncovered a considerable amount of geological data, including data concerning gold. This is why there are now a number of gold mineralisation projects at the license block, where evaluation is taking place. We are therefore quite convinced that NMC will be able to deliver more than 20 tonnes of gold reserves to CAG in the future. With regard to production, the NMC companies are expected to contribute 300 – 400 kg of gold in 2009 to the common budget. In total, CAG's gold production in 2009 is therefore expected to end up in the region of between 800 – 1,000 kg. This target must be seen in light of the fact that the Tardan deposit in 2009 will not produce larger quantities, and that almost 200 kg was produced there in the year 2008.

Organisation and working model

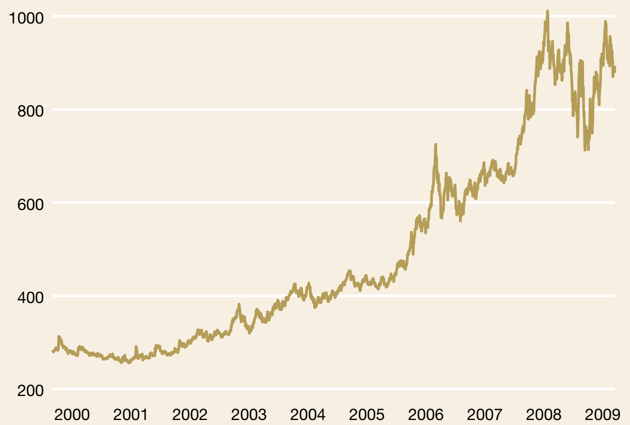
NMC today has a larger central administration than it did previously in the "old" Central Asia Gold AB. We therefore believe that considerable synergies can be achieved as a result. The specialists we have in Russia with experience of our own leaching plant can begin work immediately on the design and construction of a similar installation at the Tardan deposit. Furthermore, we also now have our own alluvial gold production, and the managers who are responsible can assist CAG's subsidiaries

International gold price in USD, 1900–2009



The gold price in USD/oz, 1900 – 2007

The gold price in USD/oz, January 1971 – March 2009



The gold price in USD/oz, January 2000 – April 2009

OOO Artelj Tyva and OOO Artelj Lena. Together we will constitute a substantially larger group, which is of interest to our co-operation partners. We also consider that our larger organisation with controllers and economists in Moscow will be able to carry out an effective follow-up of the subsidiaries, which have now increased in number.

Future mine production of gold

The new CAG is now in an interesting situation. Together we have three mining gold deposits.

Of these, two have undergone an examination of reserves in 2008 and 2009 and together obtained 17 tonnes of gold reserves. This year the third gold mine, Kozlovskoye, is also expected to undergo an examination of the reserves. We expect about 10 tonnes of gold reserves from this deposit. In total, the new Central Asia Gold therefore expects to have nearly 27 tonnes of mining gold reserves at the end of the year. Added to that, our three alluvial units today have just over 8 tonnes of gold reserves. In total, we expect to have 35 tonnes, or 1.12 million ounces, of gold reserves C1/C2 by the end of the year.

At Tchita, we have a leaching plant that gave 130 kg of gold during its start-up year, 2008. In 2009, we will decide how this plant is to be extended. Further complementary technology is required in order to manage the current 8.1 tonnes of established gold reserves. This new technology should also be designed with the ores in the nearby Kozlovskoye mine in mind. Each deposit has its own unique ore, which is why we need to be completely sure that we are building the right installation so that we do not have to do it twice. We also feel that we may be able to take control of more mining gold reserves in the vicinity in 2009. In such an event we should leave a margin in the future for technology that can possibly cover even more different types of ore. Mining production in Tchita will therefore remain at a relatively low level in 2009, with the intention of increasing it strongly in 2010.

At the Tardan deposit at Tyva, the gold reserves are now established and a new leaching plant will be built. We will soon begin to draw up the building plans for the installation with the aim of hopefully being able to resume major production of gold there in 2010.

In conclusion

The new Central Asia Gold AB is now taking shape. Meanwhile, we face a challenging period, both in Russia and around the world, so this is not the time to announce ambitious plans for the future. On the other hand, the basic conditions for CAG in fact look really interesting. In 2009, the Russian cost level has dropped dramatically compared with previous years, and the price of gold is at an all-time-high, and is also expected to have a good chance of rising further over the next few years. Added to which we have a very strong principal owner in Preston Haskell, who is prepared to enter the fray if further capital investment is required. Clearly external circumstances are difficult, but all in all I am hopeful about the future.

Kind regards,

Sergey Gorbachev
Chief Executive Officer for Central Asia Gold AB from March 2009

A few words from the new Chairman of the Board

Dear fellow shareholders in Central Asia Gold AB,
My name is Preston Haskell and since March 2009 I have had the privilege of being the chairman of the board and principal shareholder. I am a business man from America, but I have been living in Moscow since the early 1990s. I chose that time to go to Russia as I was quick to see the opportunities that were on the horizon as the country with the largest land area began undergoing a period of rapid privatisation in the transition to a market economy. I have worked and invested in the whole former Soviet Union within a number of different business sectors, but my focus has been on the property sector. That decision turned out to be very far-sighted, because with a combination of luck and, hopefully, some skill, I succeeded in realising my profits in good time before the current financial crisis swept across Russia and the rest of the world.

Central Asia Gold AB is currently one of my major investments in Russia. I devote quite a lot of my attention to this, and I also find it natural to take responsibility as the principal shareholder and to accept the post of chairman of the board. Allow me to give an assessment of my investment in Russian gold, i.e. Central Asia Gold AB:

To start with I have long been of the opinion that gold is an undervalued asset. The risks involved in gold prospecting and gold production are great and this means that it is not so easy to bring new mines into production. The mature gold countries such as South Africa, USA and Canada have experienced a decline in gold production over several years. Thus global gold production is also in fact decreasing at present, and it is hard to see a change in this trend in the near future.

On the other hand, demand is relatively stable and follows the increase in the global population. There is of course a certain price sensitivity, which means that the price increases we have seen lead to a more cautious development in demand. However, the net result is that global demand is still increasing.

In addition it seems that inflation is returning after having been almost non-existent over the past fifteen years. The current very low interest rates in the world will most likely result in an increase in inflation in years to come. The short-term reduction in inflation during the second half of 2008 and early 2009 is mostly due to falling commodity prices. In the long term the price of raw materials such as oil and gas will rise again. In addition, the USA has an enormous level of foreign debt and the same applies to the budget deficit. One way of achieving balance is to attempt to inflate these away. This has often happened before in the history of the world.

All in all I am therefore of the opinion that gold has a bright future, in more ways than one.

The purpose of my investment in Central Asia Gold AB is therefore for me, along with other shareholders to take advantage of the opportunities offered by the gold sector. As in the case of my property investments, I consider myself to be far-sighted and persistent. In 2009, we at Central Asia Gold AB plan to exceed the boundary line of 1 million ounces (+ 30 tonnes) of gold reserves and we consider that CAG in the years ahead will be one of Russia's 20 largest gold producers. As regards the financial situation in the world and in Russia, I want to highlight that the global financial crisis is not yet over. The global credit crunch will most likely continue for yet some time. In the case of Central Asia Gold AB I am therefore of the opinion that we shall focus on our alluvial operations this year and minimize capital expenditure. This most likely implies that we will try to only take up loan financing this year, although that is also a certain challenge. We however believe it is better for the share holder value to try to defer any equity raisings until 2010 at the earliest.

Therefore I believe that CAG in the years ahead will primarily increase gold production from its existing deposits. In addition, we must however be ready to act should new opportunities arise. If so I will have both the possibility and the motive to take the lead in any such investment.

Finally, let us not be daunted by the political situation. The cold war is a thing of the past. In my opinion, Russia has irreversibly taken the path of the market economy. The fact that I myself have been living as an American in Moscow for more than a decade now and am doing business has to be the best evidence of this.

Best regards,

Preston Haskell
Chairman of the Board of Central Asia Gold AB

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 in Russia. At the end of 2008, after the spin-off of the sub-group Kopylovskoye AB and prior to the acquisition of NMC (New Mining Company), the group consisted of the Swedish parent company and of three subsidiaries. Furthermore, the subsidiaries own a total of three sub-subsidiaries: The various group companies work in gold production and/or gold prospecting. All subsidiaries and sub-subsidiaries in Russia are of the limited liability type (OOO).

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 2008, the group companies produced and sold 834 kg (26,800 oz) of gold. During 2009, Central Asia Gold plans to produce approximately a total of 800-1,000 kg gold (27,700-32,000 oz) via the various group companies, including the new NMC subsidiaries.

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 licence or a stake and starts trying to prove a financially interesting mineralisation 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 mineralisation is proven, a company – perhaps the prospecting company above, or another company – must evaluate the mineralisation 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 programme 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.

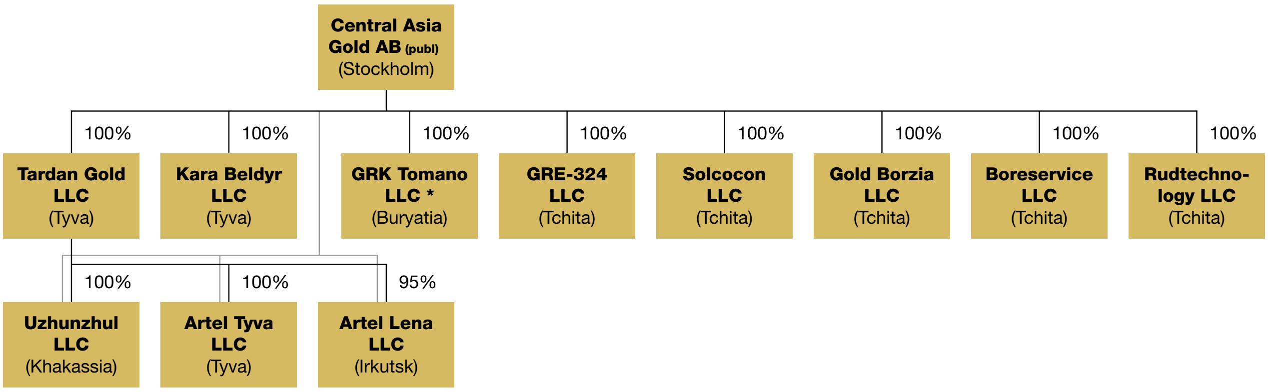
The final stage covers the production phase. The deposit has now been evaluated and financially viable recoverable reserves have been proven. The task now is to carry out the development programme from beginning to end. Now, infrastructure such as roads, housing, machines and other equipment must be purchased and be brought into operation. More comprehensive

Summary of the Asia Gold group's ownership of gold reserves according to Russian geological standards as at the end of March 2009, in troy ounces (oz)

1 ounce = 31.1 g Subsidiary	Licence	Licence status	Ownership share	Gold reserves C1	Gold reserves/ gold mineral assets C2*
OOO Tardan Gold	Tardan	granted	100%	185,756	74,994
OOO Artelj Tyva	Agliyak	granted	100%	69,003	4,051
OOO GRE-324	Bogomolovskoye	granted	100%	22,434	238,643
	Nizniaya Borzya	granted	100%	23,617	47,806
OOO Artelj Lena		granted	100%	96,431	33,923
Subtotal				**397,241**	**399,418**

* *Please note that according to Russian standards C2 is classed as reserves. Bearing in mind the differences between western and Russian categories, C2 is characterised here as "reserves/resources" in order to emphasise that a linear relationship between the Russian and western categories does not exist.*

The organisational structure of the Central Asia Gold Group as at spring 2009



* *Dormant*

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 mineralisation. To subsequently convert a mineralisation 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 mineralisations 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 mineralisations 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

The history of gold

As far back as 4,000 years ago, approximately one tonne of gold per year was mined from gold deposits found in what is now modern-day Egypt, Sudan and Saudi Arabia. The first coin with gold content was cast around 9th century BC. It is thought that the first pure gold coin was created in the 7th century BC, on behalf of King Croesus of Lydia. During the glory days of the Roman Empire, new deposits were discovered in Portugal, Spain and Africa. It is estimated that production during that time amounted to five to ten tonnes of gold per year. Gold mining diminished dramatically from the 6th century until the 15th century. For long periods of time, annual worldwide gold production was less than one tonne.

However, in the mid 15th century, interest in gold increased again. An important source of gold was derived from the mines of West Africa (today's Ghana), where five to eight tonnes of gold were mined per year. The Spanish conquests in South America (Mexico and Peru) in the early 17th century also entailed an increased supply of gold. Towards the end of the century, between ten and twelve tonnes of gold were mined every year, mainly from these regions. During the 18th century, substantial quantities of gold started to be mined in Russia as well, which resulted in an increase in yearly worldwide production to approximately 25 tonnes towards the end of the century.

One year before the California gold rush (1847), worldwide production had increased to approximately 75 tonnes, almost half of which came from Russian mines. The discovery of gold in California signalled a turning point in the history of gold. In 1853 alone, 95 tonnes of gold were taken from these mines. At about the same time, substantial gold discoveries were also made in Australia. Worldwide production increased rapidly and, after a few years, amounted to nearly 300 tonnes per year. The large deposits at Witwatersrand in South Africa, discovered in 1886, entailed a further rise in production. By 1898, South Africa had already surpassed the USA as the world's leading gold producer. Nearly 40% of all gold mined to date comes from South African mines. The Kalgoorlie (Australia) deposits, newly discovered in 1893, contributed to the increased production, as did the discovery of alluvial gold in the Klondyke region in Canada. The production of gold fell in many countries during the early part of the 20th century. The gold price increases at the end of the 1930s resulted in a brief recovery, but it was not until the price of gold rose dramatically in the 1980s that production increased again. Many older mines were reopened, and intensive prospecting resulted in numerous substantial gold discoveries. Between 1980 and 1990, the production of gold in the western world rose from 962 to 1,744 tonnes per year, and has since continued to increase to a yearly level of some 2,500 tonnes at the turn of the millennium.

Supply and demand for gold

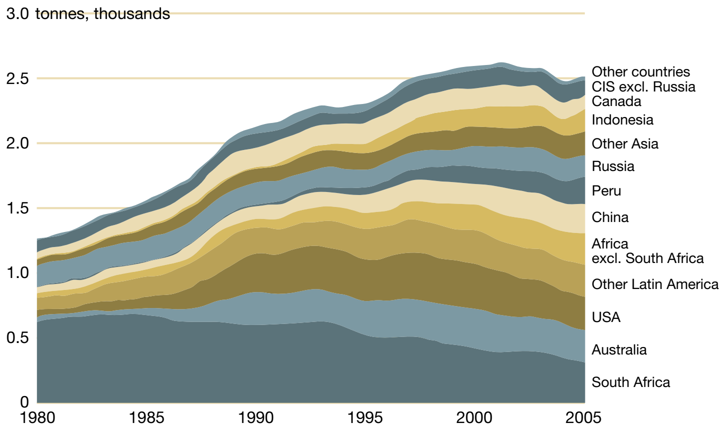
Gold is unusual in the sense that it is a commodity as well as a monetary asset. Since gold is, in principle, indestructible, all the gold that has ever been produced still exists in one form or another. At the end of 2008, the gold consultancy company Gold Field Mineral Services ("GFMS") estimated that there was a total existing amount of 164,000 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 jewellery 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 is falling

The world's primary gold production fell during 2008 by 62 tonnes or 3% compared with the previous year. Total gold production amounted to 2,416 tonnes. This was the third year in succession to experience a global fall in production and was the lowest production level for 12 years. In 2008, for the second year running, China was the leading country worldwide for gold production. The Chinese volume of gold produced also increased by 12 tonnes to 292 tonnes. South Africa has been the world's largest producer since 1905, but in 2008 it slipped to third place amongst the world's producing countries. The USA was in second place. Latin America and the former Soviet countries were the only regions to increase their production over the year. Production fell in other regions and was most severely reduced in Asia, where the downturn amounted to 38 tonnes.

The world's gold production 1980–2005



Source: World Gold Council

The price of gold

The average global price of gold increased in 2008 to USD 872 from USD 695 in 2007. The increase, expressed as a percentage, was therefore 25%. On an annual basis, this was the highest ever average price for gold. The highest individual price level ever in nominal terms was reached with the listing of USD 1,011 per oz in March 2008. Similarly, the volatility of the price of gold was particularly high - 32% - which was double the figure compared to the level in 2007.

The gold price in USD/oz 1971-2009

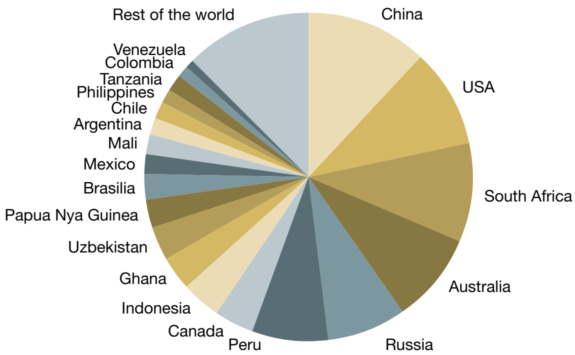
Source: World Gold Council

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. The gold consultancy company Beacon Group identified some 900 gold-producing mines all over the world in 2002.

For a long period during the 20th century, South Africa dominated as the number-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 2008, China produced 12% of the world's production.

The 20 largest gold-producing countries

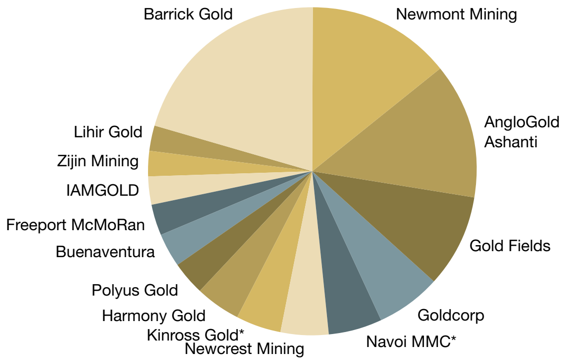


Source: GFMS

The gold grade of the ores varies globally depending on the particular ore bodies. Generally, the gold content at the largest South African mines amounts to 8–10 g/tonne, while smaller South African mines produce 4–6 g/tonne. Much of the gold in the world is produced in open-pit mines, where the gold content of the ore is generally lower than in deep mines, with gold content of 1–4 g/tonne.

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 467 USD/oz in 2008, which was an increase of 18% compared to 2007.

15 largest gold producers



** Estimate*

Source: GFMS

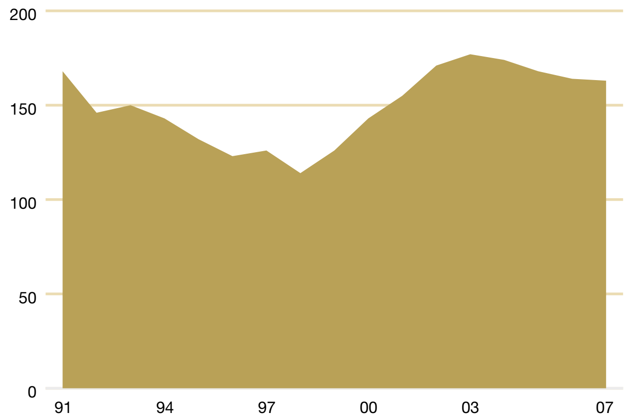
The global trade in gold

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 centres 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 organised manually by telephone as well as via an electronic trading system.

A smaller proportion of trading takes place via exchanges such as NYMEX, TOCOM or Istanbul. To facilitate price setting on the market, at 10.30 and 15.00, a reference price for gold, the so-called "London fix", is set twice daily. Settlements on the market are organised in a similar way to on the international currency market via accounts in various banks. The standard size is a "London Good Delivery Bar". The settlement currency is normally US dollars. The underlying market comprises the almost 164,000 tonnes of gold (as at the end of 2008) multiplied by the current market price. At the end of the first quarter of 2003, the total market value of the gold market amounted to 1/10 of the market capitalisation of the New York stock exchange. However, since the market consists of only one homogenous product, the liquidity is first class. Determining the exact turnover rates and prices is a slightly complicated task (due to the large proportion of OTC trading). However, the gold industry organisation, the World Gold Council, estimates that the turnover rate of the underlying market is three times a year (i. e. the value of all gold sold during a year is three times higher than the value of all gold that exists).

The Russian gold industry

Official Russian gold production calculated by the Russian Union of Goldminers increased during 2008 by 13.3% and totalled almost 184 tonnes. Production is also expected to increase during 2009, and the forecast for 2009 is 190 tonnes. Falling alluvial production levels mean that mine production increased by around 20%. In 2008, Russia maintained its position as the world's fifth largest gold-producing country.



Source: Russian Union of Gold Miners

97% of Russian gold production in 2008 is distributed across 11 regions (of a total 84 in Russia) and since 2003, the leading region has been Krasnoyarsk followed by the Sakha Republic (Yakutia), in north-eastern Russia, which rose from tenth place to be the next largest gold region, and increased its production by a massive 16 tonnes. This is due to the fact that the large Kupol mine, owned by the international gold company Kinross Gold, has begun production. In third place is the Sakha Republic (Yakutia). The Amur region increased its production by 4 tonnes during the year and therefore became the fourth largest region, taking over from the Irkutsk region, which is now Russia's seventh largest gold region. Khabarovsk Krai 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, 2008

Region	Production, tonnes
1. Krasnoyarsk	33.5
2. Chukotka	20.1
3. Sakha (Yakutia)	18.9
4. Amur	18.8
5. Khabarovsk Krai	16.2
6. Irkutsk	14.6

Source: Russian Union of Gold Miners

Industrial structure – reduced fragmentation

The Russian gold sector is highly fragmented. There are currently around 420 registered gold companies, which means a reduction of 9% compared with 2007, with the 27 top companies accounting for about 70% of the country's total production in 2008. This should again be compared to the Russian oil sector, where the four largest companies account for more than 60% of the production. However, consolidation has already started and 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. Polyus is responsible for 21% of Russia's total gold production in 2008. The next largest gold producer in 2008 is Tjukotskaja GGK (Kinross), which has begun production at its Kupol mine. As a consequence of the merger between Severstal-Resurs and High River Gold, Severstal-Resurs has now become the fifth largest gold producer in Russia.

Russia's 27 leading gold producers, 2008

	Production, tonnes
1. Polyus Zoloto	38.3
2. Jakutskaja GGK	15.4
3. Petropavlovsk	12.2
4. Polimetall	8.9
5. Severstal-Resurs	6.0
6. Yuzhuralzoloto GK	5.2
7. Russdragmet	5.1
8. Vysotjajshij	4.0
9. Susumanzoloto	4.0
10. Amur	3.3
11. Sovrudnik	2.6
12. Zoloto Seligrada	2.4
13. Priisk Solovevskij	2.2
14. Tjukotka	2.0
15. Poisk	1.9
16. Zapadnaja	1.8
17. Omsuktjanskaja	1.6
18. Vitim	1.6
19. Dalnevostotjnye resursy	1.4
20. Zoloto Kamtjatki	1.4
21. Inrungan	1.3
22. Rudnik Karalveem	1.2
23. Vasilevskij rudnik	1.1
24. Ojna	1.0
25. Uralelektromed	0.9
26. Central Asia Gold	0.8
27. Vostok	0.8
Total production of 27 leading producers	**128.5**
Total Russian production, 2008	**184**
Share of the 27 leading producers	70%

Source: Russian Union of Gold Miners

Foreign ownership of Russian gold assets does not seem to be such a sensitive issue as it is in the oil and gas sectors, where the latter is practically monopolised through Gazprom. The western-controlled gold companies accounted for almost 21% of the country's production in 2008, which is an increase from around 15% in the previous year. These companies considerably increased their production from 22.6 tonnes (2007) to 33.9 tonnes in 2008.

Distribution of Russian gold reserves and gold production

Russian gold production is characterised by a relatively significant percentage of alluvial gold. The share of alluvial gold production was just under 30% in 2008. However, alluvial production has decreased and reduced by 10% in 2008 compared with 2007, whilst mine gold production increased by 20%. Historically, allu-

Foreign gold producers in Russia 2002-2008 (kg per year)

Company	2002	2003	2004	2005	2006	2007	2008
Peter Hambro Mining (GBR)	2,225	3,758	6,287	7,018	7,421	8,405	12,240
Kinross Gold Corp (CAN)	12,515	5,474	3,949	4,696	1,212	1,942	11,575
Highland Gold Mining (GBR)	5,697	6,005	6,143	5,041	5,026	4,623	5,120
High River Gold Mines (CAN)	4,802	4,811	4,898	4,874	4,720	4,683	1,867
Leviev Group	0	0	0	0	0	134	1,221
Angara Mining	0	0	0	53	1,138	1,594	1,057
Central Asia Gold					311	1,073	834
Bema Gold Corp (CAN)	3,429	3,624	2,612	2,804	2,778	110	0
TOTAL	**28,668**	**23,672**	**23,889**	**24,486**	**22,295**	**22,570**	**33,926**
% of Russian gold production	18	15	15	16	15	16	21

Source: Russian Union of Gold Miners

vial production has accounted for over 80% of total accumulated Russian gold production. As regards gold reserves, the reverse pattern can be observed. The alluvial share of the total existing Russian gold reserves (estimated at 9,000 tonnes) is calculated at around 18% and at the same time mined gold accounts for 54% of total gold reserves. The residual percentage, 28%, pertains to complex deposits, which also contain other minerals besides gold. Including the total base of gold mineral resources in the gold reserve base, the amount of total Russian gold assets is estimated at 26,000 – 35,000 tonnes. The relatively high percentage of alluvial production can probably be primarily explained by a historic lack of long-term financing on the domestic market. This is because alluvial production is far less capital intensive than mine production.

Like the situation in the Russian oil industry, the reserve life of the Russian gold sector (total gold reserves divided by the annual gold production) significantly exceeds the reserve life in the West. Russian gold reserves are estimated to have a lifetime of 85 years at the current production rate; this can be compared with a lifetime of 15-20 years for countries such as the USA, Australia and Canada. However, the difference in the estimated life of the reserves can also be partly due to various reserve classification methods (see below).

Just like Russian oil reserves, Russian gold reserves are classified in a state register, the so-called GKZ commission, at the Ministry of Natural Resources (Minprirody). This is also represented at regional level. The Russian reserve categories A, B, C1 and C2 roughly correspond to the Western reserve categories "proven and probable". Similarly, the Russian resources categories P1, P2 and P3 roughly correspond to the Western resources categories "measured, indicated and inferred".

Production costs

It is difficult to find comprehensive statistics for production costs in Russia. Polyus Gold can be taken as a reasonable approximation, accounting for 21% of Russian production in 2008. Polyus also has a good balance between alluvial and mine production. Polyus Gold generated a cash operating cost per oz of USD 342 for the first six months of 2008. Polyus is therefore a large producer, which is why production costs for smaller Russian companies should generally be higher. This can be compared with the estimated global average cash operating cost of 467 USD/oz for the entirety of 2008 according to the consultancy company GFMS. Russian production costs in 2009 should, all things being equal, fall compared to 2008, as the rouble exchange rate has fallen significantly in 2009 against the US dollar.

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). These two units plus another three had a "good delivery status" on the LME in London in 2002. This enables these refineries to sell gold at a certain premium compared to the average price on the LME.

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 (Gozgortechnadzor) 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).

New Mining Company (NMC)

Through the acquisition in kind of the NMC group, CAG AB has gained ownership of a further five Russian limited liability companies located in the Russian Tchita region with borders that include that with China. These companies own the licence to a gold prospective area called "Staroverinskaya gold prospective zone". There are currently two gold mines and one alluvial gold deposit defined within the licence block. The first mine, Bogomolovskoye, underwent an obligatory reserve assessment by the Russian authorities at the end of 2008. The authorised figures give a total of 8.1 tonnes of gold reserves in the C1/C2 category. Initial production of gold from the Bogomolovskoye mine began in 2008 from a heap leaching plant, and produced 130 kg of pure gold over the year. The second mine, Kozlovskoye, was marked at around 10 tonnes of C1/C2 gold reserves in the 1960s, that is, in the Soviet era. In 2009, the mine will undergo new reserve testing, and the new reserve figure is estimated to be close to the previous figure. The alluvial deposit, Zolotaya Borzya, contains around 2 tonnes of extractable C1/C2 gold reserves. Production from the alluvial deposit reached 140 kg during 2008, and consequently the NMC company produced a total of 270 kg gold in 2008. A number of further gold mineralisations are located in the licence area and there is ongoing evaluation work for some of them. At the end of 2008, the total number of employees in the NMC company was 300. The individual NMC companies are expected to have 20 tonnes of registered C1/C2 reserves at the end of 2009, and previous estimates that this amount is expected to increase by 10 tonnes in 2010 are still valid.

In connection with CAG AB taking over the NMC companies, the later balance sheets will be strengthened. According to the preliminary calculations of NMC company management, at year end 2008 the company will have around MSEK 57 in equity and positive working capital. The NMC company's gold production for 2009 is estimated to be between 300–400 kg. For further information on NMC and the effects of the merger with CAG AB, please see the latest company presentation on CAG AB's website – www.centralasiagold.se.

Prospecting drilling taking place in the licence block in Tchita

Ore extraction at the Bogomolovskoye mine

Alluvial production at the subsidiary Zolotaya Borziya

Leaching taking place in the licence block

Parts of the heap leaching factory at NMC

Here inside the building are the leaching tanks and the gold storage

This conveyor belt sends the crushed ore up to the leaching platforms

Chairman of the Board, Preston Haskell (third from left), and Vice Chairman of the Board, Lars Guldstrand (far left), on site at NMC's licence block

The Tardan gold deposit

Introduction

The Tardan gold deposit is located in the Kaa-Cheem territory in the central part of the Tyva region (Siberia). The deposit is 78 km away from the administrative centre of the region – the city of Kyzyl. 60 km is accessible by asphalt road and the remaining 18 km by gravel roads. The deposit is situated on the right bank of the creek Bay-Syut in low altitude mountain terrain with absolute altitude marks of 1,433m at the peak and 800 m at the lowest point of the Bay-Syut creek. The northern hillside of the licence block is covered by Siberian forest terrain (taiga) whereas the southern side is a plain (steppe).

Geologically the deposit is situated in the contact zone between granodiorite rocks from the early Palaeozoic age with volcanic – carboniferous – rocks from the middle Cambrian age. The area of the ore field is 2 square km. Skarn has acted as a "trap" for the gold mineralisation.

A total of 14 ore zones have been detected. Their thickness varies from 1 m to 30–50 m. Their distribution is defined by a zone of fractures running in a northwest direction.

The mineralisation is of the sulphide ore type.

Ore calculations 1994

The initial prospecting of the mine took place in the Soviet era 1965–1979. The surface parts of the ore bodies were investigated by underground work. Moreover, underground drifts and shafts were made at levels of 60–100 m below the surface. The information from the trench and underground work has been supplemented with information from the diamond boreholes drilled at lengths of 120-170 m. The different prospecting works from the Soviet period are tabulated below:

Surface trenches:	47,252 cubic metres
Underground shafts:	3,876 metres
Boreholes:	20,158 metres

Drilling was performed in a grid of 30–40 m x 40 m and in some cases 20 m x 40 m. The prospecting work did not proceed deeper than 100 m below the surface at that time. A reserve calculation was carried out in the early Russian period in 1994. This study was based on the preconditions for the calculations made by the Russian research institute, Ginalmazzoloto 1992.

According to these requirements, the ore and gold reserves in 1994 were estimated to be:

Reserve category	Ore, 000 tonnes	%	Gold, kg	%	Average gold content, g/t
C1 + C2	687	100.0	7,371.8	100.0	10.7
C1	247.8	36.1	2,769.8	37.6	11.2

Source: The Russian privatisation authorities.

Work from 2004 – 2008 and new reserve calculations

Comprehensive sampling and analysis work was performed during 2004–2008 by the Central Asia Gold AB subsidiary, OOO Tardan Gold. The work programme during this period included 9,700 m of core drilling and a good 15,000 m of hammer drilling (drilling broad, shallow boreholes with light drill rigs). In addition, a good 173,000 m3 of surface trenches were excavated. Consequently a very large number of samples has been analysed.

The valuation works that have been performed between 2004–2008 have chiefly concentrated on the largest ore bodies at the Tardan deposit. Due to this work, the section of the deposit that has been investigated has been partially redefined. The new reserve calculation that was carried out by the Russian mineral reserve committee TKZ in autumn 2008 included 16 different objects (ore bodies and ore zones). For this, a cut-off grade of 0.5 g/t was used. The reserve calculation resulted in the following ore and gold reserves:

Reserve category	Ore, 000 tonnes	%	Gold, kg	%	Average gold content, g/t
C1 + C2	1,973	100.0	8,454	100.0	4.29
C1	1,449	73.4	6,122	72.4	4.22
C2	524	26.6	2,332	27.6	4.45

Source: TKZ

For the most part, the result so far is that the new ore bodies have been defined with a greater tonnage than was fixed during the Soviet period, but in return the average gold grades are lower. The geological evaluation work at the Tardan deposit and the number of larger deposits surrounding the Tardan Mining District (Tardansky rudny uzel) licence is planned to continue over the coming years.

Future leaching plant

Within the framework for the new reserve calculations, a financial pilot study (feasibility study) has been conducted by Russia's leading mine consulting company - Irgiredmet. They studied the ore volumes, the ore characteristics and financial factors. The recommended enrichment scheme to financially profit from the gold in the future is a leaching plant (heap leaching). In addition, an environmental test was carried out in Tyva with a positive outcome. The new Board of Directors of Central Asia Gold AB is currently examining the preconditions and, in 2009, plan to produce comprehensive projections. The current assessment is that the leaching plant could begin to produce gold in 2010. The experience from NMC's existing leaching plant in Tchita will be an ideal background. Therefore, only limited amounts of gold will be produced in 2009, which will be an intermediate year.

Gold production in 2008

A gravimetric enrichment plant has been built at the Tardan deposit with an annual processing capacity of 100,000 tonnes. The processing plant itself initially takes the form of a number of crushers. Thereafter one rod mill and two ball mills are connected. Centrifuges are the next stage in the treatment. Thereafter the concentrate is treated on a shaking table. By this process the free gold in the gold concentrate is released. This constitutes approximately 50% of the gold present. In connection with the shaking table, smaller melting furnaces were also installed, which can smelt the gold concentrate into Dore bars. These are then sent on for further refinement in a larger smelting works. In total, approximately 83,000 tonnes of ore were processed during 2008, which produced 184 kg (5,900 oz) of pure gold. Once the production cycle was expanded to include a leaching plant, parts of the gravimetric unit were planned to be integrated into the leaching plant.

The subsidiary Kopylovskoye AB

was distributed to shareholders at the end of December 2008

Kopylovskoye is a gold deposit located in the Bodaibo district in Irkutsk, which according to Russian geological standards currently contains a good 7 tonnes of gold reserves (approx 240,000 oz). The official reserve calculation was last carried out at the beginning of 2006. The project's potential is, however, expected to be very great, as the current reserves have only been calculated to a depth of approximately 30 metres due to previous problems when taking bulk samples at a greater depth. In addition, the established length of the ore body is a good 300 m, with a width of around 50 m. The average gold content is a good 3 g/t. The licence block itself is 3 km long.

The infrastructure at the field is good. A road to Kopylovskoye is open throughout the year. There are high-tension electricity lines throughout the vicinity. The city of Bodaibo lies at a distance of 70 km with a population of approximately 15,000 inhabitants, from which a workforce can be gathered.

Irkutsk is one of the dominant gold regions in Russia. In the vicinity of Kopylovskoye lies Russia's very largest, and according to information, the world's second largest, gold deposit which is named Suchoy-Log. This project is estimated to contain a good 1,000 tonnes (30 million oz) of established C1 and C2 gold reserves. A number of other gold fields with more than 1 million oz of gold reserves are located in the region.

New data review

A significant amount of geological work was carried out at the Kopylovskoye deposit in 2008. Over the year, a total of 20 surface trenches were dug out with a distance of 3,800 m that crosses over the licence block on both sides of the established ore body at a total distance of around 1.5 km. In addition, over 2,600 m of core drilling and close to 3,000 m pneumatic drilling was conducted, and around 2,900 surface samples were taken. More than 3,000 various samples were processed in the company's sampling unit, the majority of which were analysed in two external laboratories. The samples primarily refer to two prospecting lines situated on the western border, up to and including the established ore body:

Prospecting line 328 is located around 180 m east of the edge of the ore body. Ground samples taken from the surface trench there show a gold mineralised interval on the surface with a width of 26 m. The average content in a 5 m wide interval is around 3 g/t and in a 10 m wide interval, around 2 g/t. In the entire 26 m wide interval, the average is around 0.8 g/t.

Prospecting line 316 is located on the western border of the ore body. This proved to have a gold mineralised interval of 48 m with equal high content and low content areas. The average content in the entire interval was, according to the samples taken, a good 0.6 g/t. An 8 m wide interval has an average content of around 2 g/t.

The new sample results received so far show that the gold mineralised zone continues on the surface east from the border of the established ore body. Nothing more can be known about the deep located gold content until new samples from the drilling become available. Core borehole 509 has been drilled at a 45 degree angle in a location 100 m east of the border of the established ore body. The borehole is 250 m long. This has shown a 79 m wide gold mineralised interval with an average content of 0.2 g/t. Therefore, it can be assumed that gold mineralisation also exists at depth, east of the established ore body.

At the end of Q3 2008, a severe cost reduction programme was introduced in Kopylovskoye AB, due to the financial crisis that began to accelerate in Russia and worldwide. A large amount of the work planned for was postponed and instead the number of employees was reduced and a contracted RC drilling rig was cancelled. In this way, the costs have been reduced to a minimum, and in 2009, an international mine consulting company will go through all the company data to provide a report in an international format. The Board of Directors in Kopylovskoye AB will then make a decision on how to continue with the prospecting.

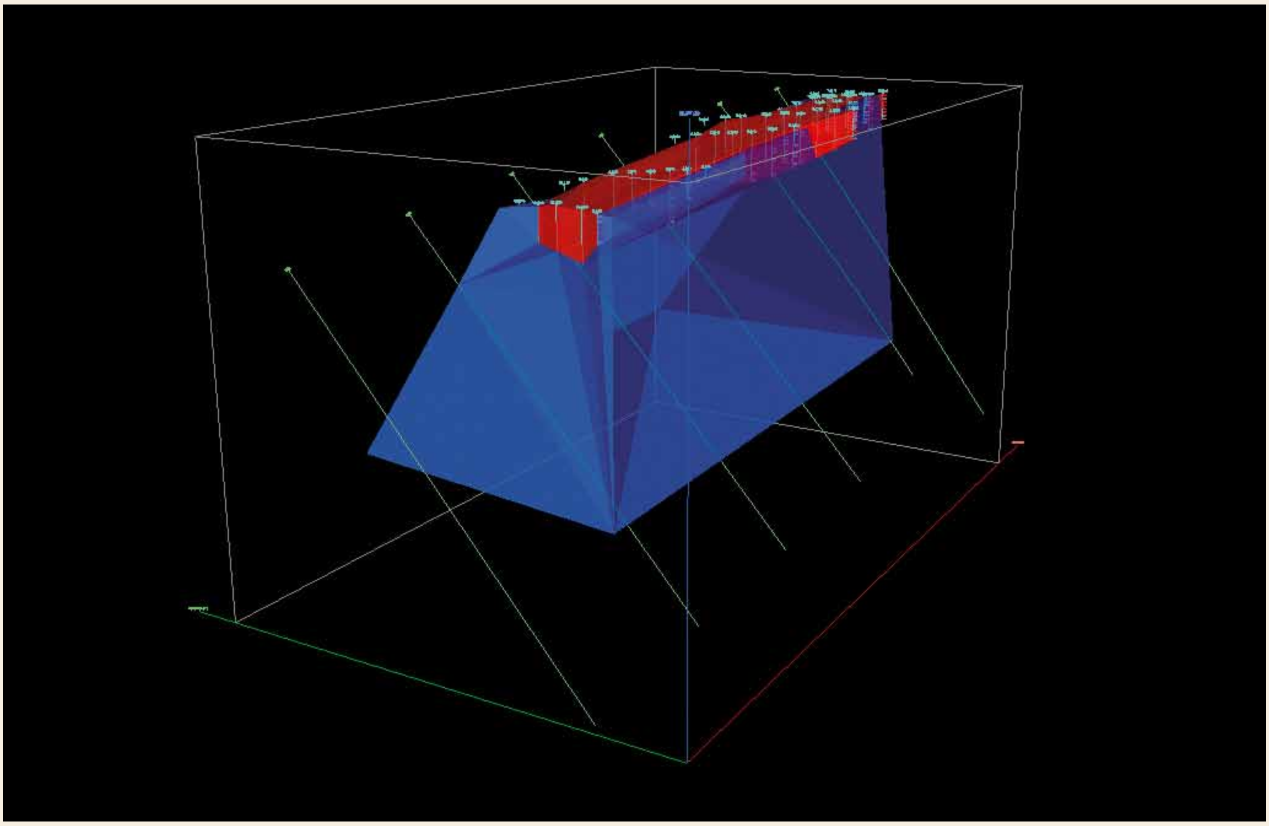
Spin-off and future prospects as an independent company

An extraordinary general meeting of CAG AB held at the end of December 2008 decided to distribute all remaining shares in Kopylovskoye AB to the shareholders of CAG AB. The record date was 30 December 2008. The share capital structure in Kopylovskoye AB had previously been adjusted with an 849:1 split, so that 849 million shares are now outstanding. The 62.5% that Central Asia Gold owned per dividend date corresponded to 530,625,000 shares, which is the total number of outstanding shares in Central Asia Gold AB at year end 2008. The dividend conditions therefore state that each holder of a CAG share at record date will receive a share in Kopylovskoye AB. Kopylovskoye AB therefore now has around 4,800 shareholders.

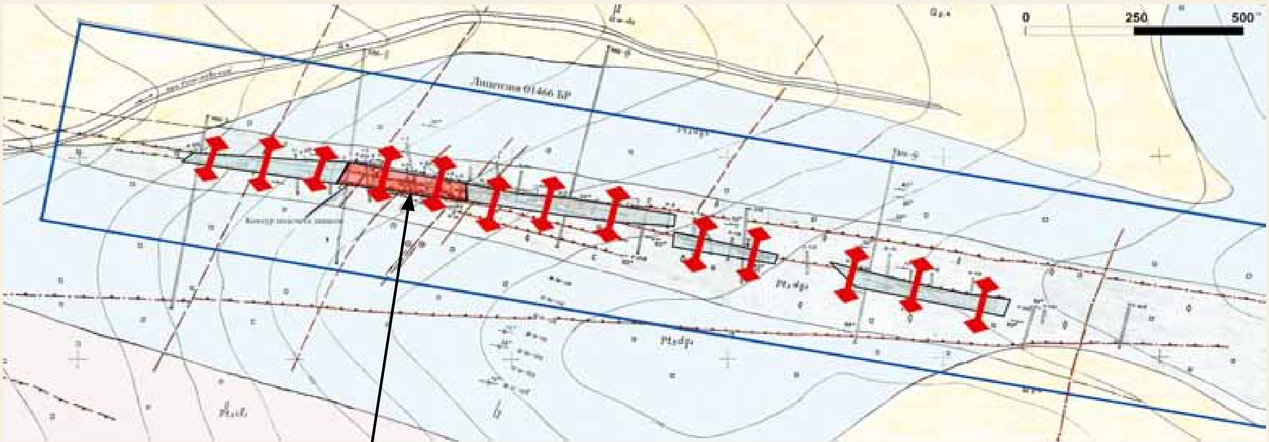
The dividend is tax-free for the recipients, in accordance with the Swedish "Lex ASEA" income tax provisions. This was confirmed by Skatteverket (the National Tax Board of Sweden) in a decision dated 2 February 2009. The same decision stated that the acquisition costs for shares in Central Asia Gold AB should be attributed 79 percent to these shares and 21 percent to received shares in Kopylovskoye AB.

Prior to the dividend, Kopylovskoye AB acquired its gold licence for Kavkaz (see below) from CAG AB via the company OOO Kavkaz. The licence for Kavkaz is located near the main Kopylovskoye licence owned by Kopylovskoye AB. The acquisition price was fixed to around USD 2 million and was paid by cancellation of debt between CAG AB and Kopylovskoye AB.

Kopylovskoye AB now operates as an independent company and Mikhail Damrin, the former manager of CAG's Moscow office, has been appointed Managing Director.



Three-dimensional image of the Kopylovskoye deposit with established gold reserves in red and expected extension of the ore zone at depth in blue. The six inclined lines are the core drilling that was performed by Central Asia Gold during autumn 2007.



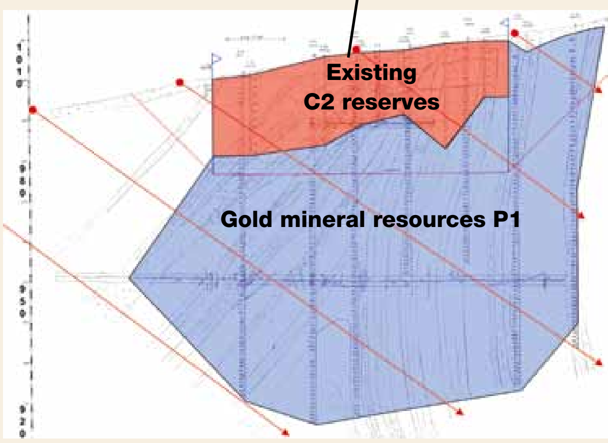
The Kopylovskoye licence area viewed from above with the block containing gold reserves marked in red

Established C2 gold reserves

Gold prospective blocks

Licence border

Prospecting lines with 40 m distance



The Kopylovskoye deposit viewed from the side, where the red marked block shows the established gold reserves and the blue marked area shows the expected extension of the ore reserves in the depth dimension

Alluvial gold production in OOO Artelj Lena

Brief description of alluvial gold production in Russia

For a long time, the majority of Russian gold was produced from alluvial deposits, of which most were cooperatives (artelji). Only in 2001–2002 did the percentage of mined gold exceed 50% in the country. As late as 1997, this proportion was just 29%. During this period, the Russian state financing of the gold sector decreased, and what was in many cases small alluvial gold producers were the most severely affected. A great task for the Russian gold industry is to develop new methods for extracting the fine-grained or otherwise hard-recoverable gold, which to a great extent remains in the alluvial deposits. For this reason, alluvial gold production is usually less profitable than mined gold production. A lower level of technology entails a lot of manual work and use of diesel to extract the gold, which is held in low concentration in the sand. So-called secondary deposits (waste products in old sand heaps) constitute 80% of the alluvial gold reserves remaining in Russia.

During the Soviet era, as much as 300 tonnes of gold were produced per year, and the Soviet Union was the second largest gold producer in the world. Until the collapse of the Soviet Union in 1991, gold production was divided up into 12 mainly regionally focused gold production units, which then covered more than 300 companies. At the end of the 1990s, the number of Russian gold companies amounted to around 750. The fragmentation of the sector was accompanied by a fall in production. This applied to nearly all the gold districts, with a few exceptions. However, many units had been mothballed.

In 2008 according to the Russian Union of Goldminers, Russia produced approximately 55 tonnes of alluvial gold, which is equal to around 30% of the total gold production in the country.

Alluvial gold makes up a small part of the total estimated Russian gold reserves – 20% – and for gold resources the proportion is only 10%.

The alluvial gold production company Artelj Lena in Irkutsk

Artelj Lena is, just as the smaller sister company OOO Artelj Tyva, an alluvial producing worker collective (in Russian ”artelj”). There were around 90 partners at the time of CAG's acquisition. In 2008, Artelj Lena produced 496 kg gold, which was a reduction compared to 2007, when 648 kg gold was produced. The reasons for the decrease in production in 2008 are the same as for the sister company, i.e. the direct and indirect effects of inflation on this more old-fashioned gold production sector.

Artelj Lena was founded on 7 April 1976. Since it started, the company has produced over 30 tonnes of gold. The company has an extensive machine park to aid gold production, including heavy and light bulldozers, excavators, front loaders and trucks, etc. The remaining alluvial licences amount to around twenty. A number of the licences have still not been thoroughly valued. In total, the registered remaining gold reserves amount to approximately 4.1 tonnes or 130,000 oz per year end 2008 (excluding the reserves assignable to the Kavkaz mining licence, which in 2008 were maintained by a new subsidiary). The gold content in the alluvial reserves is approximately 1 g per cubic metre.

As previously mentioned, a minority share of around 5% in 2008 was taken up in the subsidiary OOO Artelj Lena. The background is that some former members in the former worker collective Artelj Lena brought a case to court where they considered themselves falsely dismissed from the Artelj Lena work collective. These events occurred prior to Central Asia Gold's takeover. A local court in Irkutsk initially ruled in their favour and reinstated them as owners of around 5% of the capital and the votes in the Artelj Lena worker collective. The issue is now whether this will also apply in relation to the new limited liability company OOO Artelj Lena. Central Asia Gold disputes this and has brought a complaint against the case. A civil court case has been held on these issues, and Central Asia Gold AB's subsidiary has won many such cases. As a preventative measure, certain structural changes were implemented in OOO Artelj Lena in order to simplify the process, regardless of the outcome of the court case. It is currently unclear what the final result will be.

Bearing in mind the structural problems in both the alluvial companies, CAG decided to write down Artelj Lena by an amount of MSEK 32.9 as early as the half-yearly report for 2008. In the nine-monthly report, it was decided to also write down Artelj Tyva by around MSEK 11 in the group accounts.

Alluvial gold production in OOO Artelj Lena

Alluvial gold production is underway.

The alluvial gold producing subsidiary company OOO Artelj Tyva

At the end of 2005, Central Asia Gold AB (publ) acquired the Tyva-based alluvial gold producing company (alluvial gold = gold in rivers and riverbeds) "Artelj Tyva". The purchase price was equivalent to USD 2 million. The actual date of purchase was the end of December 2005, and the purchaser was Central Asia Gold's subsidiary OOO Tardan Gold. However, all the gold production for 2005 was devolved to Central Asia Gold.

Artelj Tyva has two alluvial deposits – Bolshoy Agliyak and Maly Agliyak. The remaining officially determined C1 and C2 extractable gold reserves as per the end of 2008 were approximately 2 tonnes or a good 73,000 troy oz. Almost all of this is in the C1 category. The average gold content of the sand is 0.95 g per cubic metre.

Being an alluvial gold producer, Artelj Tyva produces gold during the warmer part of the year, i.e. May–October. Gold production in 2008 was only 154 kg, which is the lowest production for many years. The year 2007 saw 231 kg of gold produced.

Total income for 2008 was approximately 105 million roubles (MRUB), equivalent to around USD 4.2 million at the average exchange rate for the year. For 2007, the corresponding income was around USD 5.4 million. The average sales price per oz of gold was around USD 848 in 2008.

The underlying factor behind the decrease in production in 2008 was inflation, which has been particularly high in Russia in the last few years. The cost of fuel was at its highest in summer 2008 and caused a correspondingly considerable increase in costs. The cost increases also affect salaries, and a lack of workforce also led to a high rate of employee turnover. All these factors have had a particularly negative effect on a number of Russian alluvial gold companies. OOO Artelj Tyva also suffered from bad weather conditions during September and October 2008, which also negatively affected the operations.

As a positive, it can be noted that the aforementioned socio-economic factors at the beginning of 2009 have marginally improved, as fuel prices have fallen and the rouble has weakened considerably, and unemployment levels in Russia are expected to increase. These factors could all lead to lower gold production costs during the coming year. The deciding factors for future profitability and cash flow is how the price of gold develops in 2009 and onwards.

Like other alluvial gold producers, Artelj Tyva uses a system of seasonal employment. During the production season, a couple of hundred employees work in the field, and this falls to a few dozen employees after the end of the production season.

The seasonal pattern of work is due to the fact that a lot of water is needed to separate the gold from the sand. In winter, all water freezes, so no gold can be produced then. During the first quarter of the financial year, some maintenance work on equipment is carried out. Excavation work then starts during April–May (i.e. as soon as the soil has defrosted), and gold separation work finally starts at the end of May, when the watercourses flow again. Gold is then produced for around 4–5 months, until the cold weather sets in again in October. During this period, the employees hardly ever leave the production site but instead work continual shifts. In this way, they put in enough hours to make up a normal working year during the limited period.

The seasonal pattern means that a Russian alluvial producer produces gold mainly during the third quarter (July–September) and then sells most of the gold during the fourth quarter (October–December). During the first and second quarters, only limited activities are carried out.

Artelj Tyva – gold production 2002–2008 in kg

2002	2003	2004	2005	2006	2007	2008
302	213	267	315	260	231	154

The Kavkaz mining deposit

(OOO Kavkaz)

The Kavkaz mining deposit is situated in the Bodaibo district in the Irkutsk region of Russia. It lies approximately 35 km from Central Asia Gold's other mining project in this region, Kopylovskoye. The licence area covers 2.3 km^2. The licence was moved in 2008 to one of OOO Artelj Lena's newly-created subsidiaries, OOO Kavkaz. The ownership of OOO Kavkaz was then moved to Central Asia Gold AB, and then to Kopylovskoye AB.

In the 1950s, i.e. during the Soviet period, the initial prospecting work was performed in this area. At this time 63 gold bearing quartz veins with lengths of 200–250 m were identified. An underground mining shaft was excavated along the first quartz vein from which comprehensive sampling was performed. The quartz vein was calculated to have an average gold content of 12.6 g/t. Many of the other veins measured had similarly high contents but due to their frequently modest thickness (10–40 cm) these were not considered to be of economic value. However the object as a whole was considered to be interesting and it was recommended for further geological work.

During 1978–1981 the quartz veins that appeared to be of a more significant thickness were studied in greater detail. Magnetic measurements and lithological studies were then performed, a large quantity of surface trenches and pits were excavated and approximately 19,000 m of core drilling was performed.

The subsequent evaluation work was performed during the period 1980–1984 and was comprehensive. It included a further 7,600 m diamond drilling. During the period 2002–2003, OOO Artelj Lena performed further analyses, including analyses into the deposit's estimated profitability.

According to the results from the previous investigation programme, there are currently four officially identified quartz veins, which incline steeply downwards in a depth direction. The first zone is followed in a lateral direction along the surface via the surface trench for approximately 600 m. Its depth has been followed down to 300 m via a drilled borehole. In accordance with Russian standards, this zone contains 288 kg of C1 gold reserves and 748 kg of C2 gold reserves. There were 1,645 kg P1 gold mineral resources. Two veins have been identified in zone number 4. They were measured to have a length of 650 m and the veins were followed to a depth of 200 m. P1 gold mineral resources amount to 975 kg.

Ore sampling at the Kavkaz deposit

New analysis performed in 2007 by Central Asia Gold

The historic analysis stated that the Kavkaz deposit contained relatively high grade but limited gold reserves connected to quartz veins with a thickness of approximately one metre. Central Asia Gold's geology department has always suspected that the historic figures underestimated the deposit, as the old data collection overlooked much of the coarse grained gold in the ground. During 2007, new data has been collected from the surface primarily via surface trenches. This data have now been analysed and prove that gold is not just present in the quartz veins but also in the side rock. The ore zone in the surface trenches has a width of up to 45 metres instead of a few separate metres. This radically changes the image of the Kavkaz deposit and makes it similar to Central Asia Gold's Kopylovskoye deposit.

Prodolny licence

In April 2008, Kopylovskoye AB made a bid on the "Prodolny" licence block. This is situated close to the Kopylovskoye and Kavkaz blocks. The Prodolny block has a surface area of 141 km^2 and contains a number of gold deposits. According to the information material provided in connection with the auction, Prodolny is estimated to contain approximately 18 tonnes (578,000 oz) of gold mineral resources according to Russian geological standards. Only limited geological work has been carried out there. The licence includes the right to prospect and evaluation as well as the later right to produce gold.

The Kara-Beldyr gold mineralisations

(OOO Kara-Beldyr)

Cooperation dialogue with Centerra Gold

In autumn 2008, the gold project was the subject of a collaboration (joint venture agreement) with the Canadian gold company Centerra Gold ("Centerra"). Centerra Gold is one of the world's leading gold companies and in 2008 produced around 750,000 oz gold (around 23 tonnes) from two mines in Mongolia and Kyrgyzstan. The cooperation agreement means that Centerra has the right but not the obligation to acquire up to 70% of Kara-Beldyr by investing a total of USD 6.5 million in the project. Of this, in 2008, Centerra Gold invested an amount equal to USD 250,000. Centerra will be the operator at the time of purchasing into the project. During the first half of 2008, a basic drilling programme was implemented, to reach to around 1,100 m. The drilling programme consisted of basic RC-alike boreholes down to a depth of 10-30 m. The boreholes were drilled in three lines over the known Gordejevskoe mineralisation. These mineralisations have historically shown themselves to be mainly on the surface, via surface trenches. The aim of this drilling programme was to confirm the historical information and to test the gold distribution at a more considerable depth. The second half of 2008 saw a comprehensive geophysical study of a surface area of over 3 square kilometres at Kara-Beldyr. The results of the prospecting work have, so far, been as expected. As a result of this, it has been decided to follow up with a similar basic drilling programme during the first half of 2009. The aim is to then follow up with a diamond drilling programme.

The licence for Kara-Beldyr was originally owned by Central Asia Gold AB's subsidiary, OOO Tardan Gold. During the 2008 operations, it was moved over to a new licence company, OOO Kara-Beldyr, after which the ownership of this company went directly to Central Asia Gold AB.

Geological description

The Kara-Beldyr gold mineralisations are located in the Eastern part of the Tyva republic close to the Kaa-Cheem river (also called Little Yenisey). This distance to the administrative centre of Kyzyl is 215 km, of which 100 km is asphalt road, 85 km gravel road and the remaining road sections are only passable using terrain vehicles or on frozen ground in the winter. There are no permanent constructions in the area. The Kara-Beldyr gold mineralisations lie in the south eastern section of a placer gold zone called Tapsa-Kacheemsk. An alluvial gold deposit in the valley where the Kara-Beldyr river flows has been known since 1918.

A gold mineralisation on the hillsides was detected in 1988 when the Geological Expedition in Tyva performed prospecting work. The area subject to the exploration covers 27.4 square kilometres.

Comprehensive work was conducted along a linear grid of 240 km. Geochemical samples were taken in an 8-square-kilometre area with 100 x 20 m gridlines. Formation water samples were taken in trenches and shafts; altogether 715 samples were collected. An electromagnetic survey was done in the same 8 km area with the same gridline system. Also, a survey was performed and samples were taken for analysis in 659 shafts and in 4,968 m of trenches. In addition shallow boreholes amounting to 565 m were drilled. Further, a few mineralisations were drilled via four boreholes to a depth of 150 m, altogether 614 m of core drilling. Geophysical measurements were taken in the boreholes over a total 401 m. The area housing the mineralised zones encompasses 8 square kilometres. The mineralisation is related to an intrusive tonalite of middle Cambrian age. The supracrustal rocks are terrestrial volcanic rocks and limestones of Eocambrian and lower Cambrian age. Skarn rocks are found within the intrusive tonalite and in the contact zone between the tonalite and the limestone.

There are two types of mineralisations, mineralisations in skarns and those in beresites. Beresites are altered rocks consisting of quartz, muscovite and pyrite with a direct relation to formation of the gold ore. Within zones of beresite transformation, larger mineralisations may occur. Such mineralisations are found close to major faults, especially where such faults cross zones of fractures. This type of mineralisation is called "stockwork". Stockworks are characterised by accumulations of gold in fractures forming a column in the depth direction.

The transformation of the sidewall rock that accompanies the gold mineralisation in the stockwork formation is defined here as beresite. These stockworks can be traced in a zone of 2.3 km with a width of 100–400 m. In this zone the two gold deposits Gordeyevskoye and Ezen are located. Gordeyevskoye is a stockwork mineralisation with beresite transformation. Ezen contains both stockwork and skarns.

The geochemical analysis in the Kara-Beldyr area revealed 17 anomalies, out of which 6 are estimated to contain ore that can be mined economically. During the period 2000–2002 additional exploration was done on the occurrences Gordeyevskoye and Ezen. On Gordeyevskoye a number of surface trenches were dug out with a distance of 100 m in between. The volume of trenching amounted to 1,089 m and tests were taken from these for analysis over a total length of 1,026 m. Gordeyevskoye contains four mineralisations, of which three are exposed at surface and one is a blind ore body. At Ezen two gold occurrences were discovered containing a small content of base metals in addition to one which was characterised as a copper-gold mineralisation. At the ore reserve calculation on these occurrences, a cut-off grade of 1 ppm of gold has been applied, together with a minimum content of gold in the blocks of 4.5 ppm gold.

In 2000, a small ore sample (100 kg) was analysed in a concentration test. The test was carried out at the Irgiredmet institute in Irkutsk. The results showed that the ore is transformed and is composed of 34% quartz, 32% clay, 17% of carbonates, 9% of limonite and small amounts of sulphides (less than 1%). The

A gold ore body extends to surface.

Gold deposit	Minera-lisation	Length, m	Depth, m	Average width, m	Average g/t	Mineral resources P1, tonne	Mineral resources P1, oz
Gordeyevskoye	no 1	140	50	0.95	7.1	0.12	3,732
	no 2	180	100	16.1	5.87	4.39	136,529
	no 3	80	100	5.55	17.92	2.05	63,755
Subtotal						**6.56**	**204,016**
Ezen	no 1	100	50	4.95	9.53	0.61	18,971
	no 2	80	40	7	9.2	0.53	16,483
Subtotal						**1.14**	**35,454**
Total						**7.7**	**239,470**

gold occurs in free form together with limonite and quartz. The silver present occurs as native silver and the mineral argentite-acanthite. The sample demonstrated a gold content of 6.3 ppm and a silver content of 15 ppm. The analysis shows that 62% of the gold and 31.9% of the silver is represented by free grains with a clean surface. 88% of the gold and silver mineral has a grain size of < 0.074 mm. The gold purity is in the range of 875–890 per thousand. A gravimetric process gave a recovery of 56.8%. The 100 kg sample yielded a gravimetric concentrate with 29,676 ppm gold per tonne. The content of gold in the residual product was 2.7 ppm gold. From the residual product an 89.4% recovery of gold was achieved in a cyanide leaching process.

The laboratory report recommends a combined gravimetric and cyanide leaching process. It was estimated that such a combination method would reach a gold recovery of 93–94% and a recovery of silver of 70–75%.

Based on the prospecting work conducted in 2000–2002, the geologists of the Geologic Expedition in Tyva have estimated the P1 and P2 gold resources of the gold occurrences in Kara-Beldyr.

Object	P2 mineral supply, tonnes	P2 mineral supply, oz
Gordeyevskoye	17.8	553,580
Ezen	4.6	143,060
anomaly no 2	0.7	21,770
anomaly no 5	2.2	68,420
anomaly no 7	2.4	74,640
anomaly no 11	7.2	223,920
anomaly no 14	0.2	6,220
anomaly no 17	0.2	6,220
Total P2 mineral resources	**35.3**	**1,097,830**

Analysis conducted in 2007

A new ore sample has been analysed during 2007 at a planning institute in Irkutsk. The ore sample was relatively large scale, a few hundred kg, and has been taken over a 70 m wide interval at the surface via a surface trench. Previous older samples from the Soviet period were not taken in the same volume and the same width. The new sample shows an average gold content of just less than 3 g/t in the total interval. The considerable width of the mineralisation at this place indicates that the gold in the ground is suitable for open pit mining, which is the preferred method. In addition, laboratory tests for this ore sample have revealed a very high extraction level with the application of heap leaching, which is a very cost effective extraction method. Taken together, the potential of the project appears very promising even though it continues to remain at an early stage.

Uzhunzhulsky group of mineralisations

During autumn 2006, Central Asia Gold, via its subsidiary OOO Tardan Gold, won a public auction in the Republic of Khakassia in Siberia (borders with Tyva, Tomsk and Krasnoyarsk) relating to a mine object with 7.5 tonnes of gold mineral resources in the P1 category (235,000 oz) and 8.5 tonnes of gold mineral resources in the P2 category (273,000 oz). Via the subsidiary company, CAG paid approximately 6 million roubles for the licence, equivalent to approximately USD 225,000. The licence that was issued has a term of 25 years and includes the right to perform both prospecting and production of gold. The object is considered to be very interesting for a number of reasons. Firstly the object is situated in a known mining region, in which alluvial production of gold commenced as early as the 1800s. In addition the region has a very good infrastructure and a relatively mild climate. Furthermore there is an interesting gold mining deposit, Kuznetsovskoye, in direct connection to CAG's licence block, which entered production in 1997. This gold deposit was one of the first in Russia to produce via "heap leaching", i.e. by means of chemical leaching on open platforms. The ore-bearing zone at Kuznetsovskoye is the same as that in Central Asia Gold's licence block. It is also worth stating that the owner of the licence at Kuznetsovskoye participated in the auction won by Central Asia Gold. This can be taken as a good indication that the licence block is worth attention. Finally it should be noted that the purchase-price was quite advantageous, as it was equivalent to just USD 1 per oz for P1 gold mineral resources.

A comprehensive work programme including surface excavation and core drilling (2,600 m) was performed during 2007.

The area of the licence block comprises 134 km². The mineralisations are of the quartz sulphide and quartz types. Given the currently available information, the area includes two mineralisations and two gold prospecting sections.

The ”Jurkovskoye” mineralisations:

27 ore bodies have been identified on the basis of the sampling programme. These slope downwards in a northerly direction at a relatively steep angle. They have the form of veins or lenses with a thickness ranging from 0.8–27 m. The bodies follow in a lateral direction for 80–950 m and to a depth of 50–360 m. The cut-off grade which has been applied is 0.5 g/t. The finely granulated gold is present in quartz and is very occasionally present in larger gold granules, mixed in with sulphides. In the most rich sections, the gold can be seen visually with granular sizes of up to 3 mm. The gold contents vary in the samples from 0.6 g/t to 35.3 g/t. The samples also contain silver as a by-product with contents varying from 4.6 g/t to 20.7 g/t. The local geologists who performed the work programme estimate there are 6.3 tonnes of P1 gold mineral resources and 8.5 tonnes of P2 gold mineral resources. The equivalent figures for silver are 4.3 tonnes and 6.8 tonnes respectively. However as of 1 January 2003 the Russian Ministry for Natural Resources ("MPR") has only registered 5 tonnes of P2 gold mineral resources.

The ”Karbayskoye” mineralisations

A geological evaluation programme performed during the years 1997–2002 has identified a quantity of ores formed in veins or lenses. The gold is present in quartz. Eight ore bodies have been calculated with a cut-off grade of 0.5 g/t. The bodies extend from 130–255 m in a lateral direction and at a depth of 30–205 m with a length of 2.1–12.4 m. The average gold content is relatively low, 0.55–1.7 g/t. The silver contents are 0.6–2.27 g/t. The quantity of P1 gold mineral resources is estimated at 987 kg and the equivalent for silver is 1,194 kg.

The "Perevalny" prospecting area

Evaluation work has been performed at this area, but large contents of gold mineral resources have not been evaluated. However a number of gold-bearing zones have been identified on the basis of the work performed. The width of the zones are from 4–146 m and the contents in the tests amounts to 0.2 g/t–10.6 g/t.

The "Paraspan" prospecting area

The mineralisation is of the quartz and sulphide type. Three ore bodies have been identified on the basis of a rather wide data grid. A cut-off grade of 0.5 g/t has been applied. Measured contents are from 1.8-7.2 g/t. Estimated P1 gold mineral resources comprise 483 kg and the equivalent P2 was 1,698 kg. The quantity of P2 has been calculated with a presumed depth of mineralisation of 20-40 m. This quantity of gold mineral resources has not been registered at a federal level by the Ministry for Protection of Environment and Natural Resources of Russia (MPR).

The Russian Tyva region

Tyva is one of the smallest regions of the Russian Federation. During the Soviet period it was an Autonomous Soviet Republic (ASSR). By surface area, Tyva is number 21 of the 84 Russian regions. It is located in Central Asia, in the southern part of Eastern Siberia on the border with Mongolia. The distance between Moscow and Kyzyl, the capital of Tyva, is 4,668 km.

Historically, evidence of human activities has been detected here from about 20,000 years ago (the Stone Age). A Tyva tribe of humans developed around the year 1,000 AD. Thereafter Tyva was controlled by various Asian tribes such as Huns, Turks, and Kirghiz. During the 13th and 14th centuries, Tyva was part of Genghis Khan's empire. During the 18th century, Tyva was conquered by the Manchurians. In 1914, Tyva became a Russian protectorate, and during 1921–1944 it was an independent republic. Thereafter Tyva was integrated into the Soviet Union with varying status. Since 1994, Tyva has been called the Tyva Republic and is a member of the Russian Federation.

Tyva occupies an area of 170,500 square kilometres. The landscape is full of high mountains and deep valleys. Mountainous terrain covers 82% of the region and plains (step) account for 18%. The highest peak is Mongun-Taiga, reaching 3,970 m.

The monument "Centre of Asia" in the city of Kyzyl, Tyva.

The geometric centre of the whole of Asia is in the town of Kyzyl, and a monument in the town bears witness to this. Tyva's neighbours are thus Mongolia in the south, Buryatiya in the east, Altai in the west and Khakassia and Irkutsk in the north west and north east respectively. The population amounted to 310,300 at the end of 2002, one third of whom lived in the capital Kyzyl. In total, half of the population lives in towns and the other half in the countryside. Ethnically, one third of the population are Russians (as at 1989), while the local Tyvinnians (an Asiatic people) account for almost two thirds.

The economy of the republic is small, and Tyva is dependent on contributions from the Russian federal budget. The main occupations are cattle farming and other agriculture. The climate is continental with temperatures ranging from about –58°C in winter to +40°C in summer. A number of areas are subject to permafrost.

The natural landscape is very rich with large areas of forests and many lakes and rivers. These habitats contain a large variety of flora and fauna. Both "northern" and "southern" animals are found here: reindeer, camels, yaks, bears, wolves and lynxes. Tyva is popular hunting ground. Tyva also has relatively large deposits of natural resources.

According to official information from the republic shown on the Internet, there are around 2,000 deposits of non-ferrous and base metals in Tyva, including around twenty larger deposits of minerals such as cobalt, lithium and bituminous coal, etc. The largest are Kaa-cheem (coal), Ak-Douvrak (asbestos), Khouvy-Aksyn (nickel-cobalt), Tardan (gold) and Ak-Sug (copper, molybdenum, gold and silver).

The Irkutsk region

The Irkutsk oblast is located in south-eastern Siberia. The distance between Moscow and the capital Irkutsk is 5,185 km. The Irkutsk region is the seventh largest region of the total 84 regions in Russia by surface area. The Irkutsk oblast borders Buryatia and Tyva in the south and south-west, the Krasnoyarsk region in the West, the Republic of Sacha in the north-east and Chita in the east. The unique and famous Lake Baikal is located in the south-eastern section of the oblast. The Irkutsk oblast occupies a surface area of 767,900 square kilometres and the majority of the landscape consists of mountains and valleys. The climate is continental in the southern section and sub-Arctic further north. The population numbers 2.77 million people, of whom 600,000 live in the city of Irkutsk. 80% of the population reside in towns and 20% in the countryside. The primary industrial sectors are metal, energy, wood, oil and other fuels, manufacturing, chemical processes, foodstuffs and hydropower. The Irkutsk region is the sixth largest gold producer in Russia and produced 14.6 tonnes of gold during 2008.

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, significant activities will be 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 will demand utilisation of various chemical compounds. On balance, therefore, the operations of Central Asia Gold are potentially damaging to nature.

The natural landscape in the Tyva region in general, and in particular in the vicinity of the Tardan deposit, is very beautiful and sensitive. The creek Bay-Syut flows not far away from the licence area. Central Asia Gold is aware of the risks of damaging the environment, and constantly tries to prevent and minimise these risks. We of course also endeavour to comply with all existing environmental regulations.

Many Russian environmental laws apply to the mineral sector. Environmental inspections 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.

Beautiful Siberian woods

Share capital and ownership

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

In June 2008 a new preferential rights issue was carried out and then registered in July. The share issue comprised units, each consisting of 2 shares and a warrant. A total of 117,774,304 new shares and 58,887,152 warrants were thus issued. The warrants were short term, expiring at the start of December 2008. The issue price of the shares was SEK 0.55 and the strike price of the warrants was also SEK 0.55.

During the relatively tough autumn of 2008 the price of Central Asia Gold shares fell and consequently only a small number of warrants were used. In total only 143,362 were exercised.

In connection with the decision to spin off the Kopylovskoye AB subsidiary to shareholders, the number of outstanding shares in Central Asia Gold was adjusted to enable the shares to be distributed evenly without having shares left over. A private placement was therefore carried out in December 2008 in which Stockholm-based insurance company Bliwa Liv subscribed to 497,264 shares. The issue price was SEK 0.20 per share. Following this, the number of shares outstanding at year-end 2008 was 530,625,000.

Following this, the acquisition of the gold company NMC was made via an issue in kind in March 2009, as described elsewhere in this annual report. In connection with this, 3,000,000,000 new CAG shares were issued at a price of SEK 0.06 per share. In addition, to make the share issue possible, the quotient value of each share was reduced to SEK 0.05 per share. In addition, the share capital limits were amended to be no less than SEK 150,000,000 and no more than SEK 600,000,000. Following the acquisition through an issue in kind, the share capital amounts to SEK 176,531,250. An issue of 500,000,000 share warrants was also used to pay for the NMC companies, with each warrant entitling the holder to one new share in CAG. The strike price is SEK 0.20 per warrant corresponding to one new share. The warrants expire after January 2012.

At an extraordinary general meeting (EGM) of the shareholders on March 12, 2009 the decision was taken to carry out a reverse stock split on a 200:1 basis. This reverse split is expected to be carried out during 2009. Following this the new number of shares, all other things being equal, will be 17,653,125. There is only one class of share with equal entitlement to the Company's assets and profits.

At the annual general meeting of the shareholders on June 12, 2008, the Board was mandated, until the 2009 AGM, to carry out private placements of up to 80 million shares with or without preferential rights for existing shareholders. At the abovementioned EGM on March 12, 2009 this mandate was changed to apply to up to 10,000,000 new shares following the reverse stock split (which corresponds to 2 billion shares before the reverse split). At the date of approval of this annual report none of the mandate had been used. A new mandate will be proposed at the AGM on May 27, 2009.

Changes in share capital

Event	Date	Increase in number of shares	Outstanding number of shares	Nominal value/share	Offer price/share	Increase in share capital	Closing share capital
Formation of 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 share 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 share warrants	2006-01-17	2,143,677	230,752,479	0.20	0.60	428,735	46,150,496
New share issue via share 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	80,439,384,60
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
Issue in kind **	2009-03-17	3,000,000,000	3,530,625,000	0.05	0.06	150,000,000	176,531,250

** Reduction of par value per share to SEK 0.20.*
***Reduction of quotient value to SEK 0.05.*

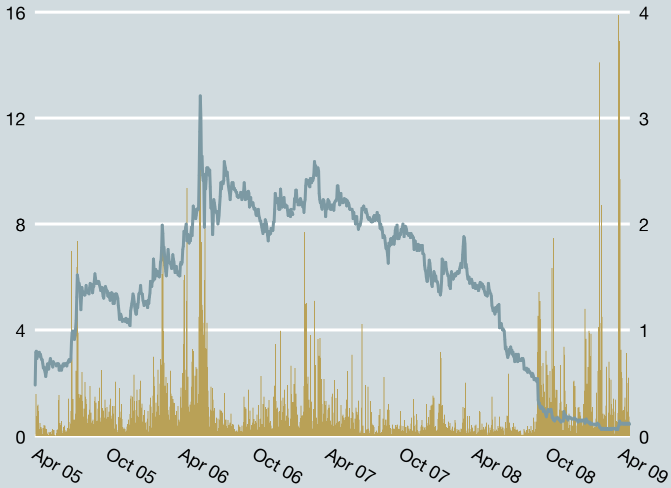
A share option program aimed at the group's senior executives was approved at the 2007 AGM. This program comprised a total of 14,500,000 share options. The options can be exercised until July 2009 inclusive, and the strike price was originally SEK 2.25/ option, corresponding to one share. The rights issue in June 2008 resulted in the strike price being recalculated at SEK 2.00 per option corresponding to one share. The distribution of Kopylovskoye AB in December 2008 reduced the strike price further to SEK 1.76. Both events have also led to the number of shares to which each option provides entitlement now being SEK 1.28. An option can only be redeemed towards the end of its term. The stock market price of CAG shares is, however, significantly lower than the issue price of the options at year-end 2008.

The 17 largest owners in Central Asia Gold AB (publ) at February 27, 2009, updated for known changes

Shareholder	Number of shares	% Share of ownership
Bertil Holdings Ltd	2,247,000,000	63.64%
Greypson Investments Ltd	753,000,000	21.33%
Spencer Energy A/S	66,157,375	1.87%
AB Landå	55,928,572	1.58%
Mikhail Malyarenko	48,915,947	1.39%
Paal Hveem	40,398,570	1.14%
Bliwa Livförsäkring	11,874,554	0.34%
Swedbank Robur funds	9,593,854	0.27%
Nordnet Pensionsförsäkring AB	8,421,349	0.24%
Försäkrings AB Avanza Pension	7,983,495	0.23%
Connys Alltransporter AB	5,300,098	0.15%
Lars Guldstrand	5,000,000	0.14%
Torbjörn Ranta	5,000,000	0.14%
The Österlin family	4,814,424	0.14%
Gabrielsson Invest AB	3,546,856	0.10%
Matligan AB	2,510,284	0.07%
Duo Jag AS	2,482,856	0.07%
Subtotal for the 17 largest owners	**3,277,928,234**	**92.84%**
Other approximately 4,800 owners	252,696,766	7.16%
Total number of shares outstanding before dilution	**3,530,625,000**	**100.00%**
Staff options that mature in July 2009 (strike price of SEK 1.76 per share)	18,560,000	
Total number of shares after dilution	**3,549,185,000**	

Source: Euroclear AB and Central Asia Gold AB

Share price and daily number of shares traded in Central Asia Gold March 28, 2005 – April 20, 2009



Share price shown by blue line and right-hand scale. Daily turnover of shares (millions) shown by bars and left-hand scale.

Operational key ratios

The key ratios refer to the group.

	2008	2007	Definitions
Profitability			
Ore processing (thousands of tonnes)	83	53	The quantity of treated ore within the mine-area during the period (thousands of tonnes)
Gold production (oz) during the period	26,812	34,500	Gold production obtained during the period (troy oz)
Gold sales during the period (oz)	26,877	34,560	Actual sold gold production during the period (troy oz)
Average realized gold price (USD/oz)	846	693	Average price received during the period (USD/oz)
Return on equity (%)	-26.16%	-0.71%	Net profit/loss for the period as a percentage of average equity during the period, including minority holdings
Capital structure			
Equity, TSEK	252,795	391,505	Total equity at the end of the period, excluding minority holdings
Interest-bearing liabilities, TSEK	28,583	47,636	Total interest-bearing liabilities at the end of the period
Equity ratio (%)	70.3%	63.7%	Equity, excluding minority holdings, as a percentage of the balance sheet total
Cash flow and liquidity			
Cash flow before investments, TSEK	-2,873	3,143	Operating profit/loss plus depreciations, minus the change in working capital
Cash flow after investments and financing, TSEK	-35,685	-12,470	Operating profit/loss plus depreciations minus the change in working capital and investments and after financing
Liquid assets, TSEK	34,230	69,843	Bank deposits and cash at the end of the period
Investments			
Capital investments	5,601	89,543	Net investments in material fixed assets (after adjustment for any disinvestments)
Employees			
Average number of employees during the period	991	1,199	
Share data			
Number of outstanding shares before dilution at the end of the period	530,625,000	412,210,070	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	463,300,212	405,677,654	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	0	0	Number of non-exercised warrants at the end of the respective period.
Quotient value, SEK *	0.2	0.2	Each share's proportion of the total share capital
Earnings per share, SEK	-0.186	-0.014	Net profit/loss after tax divided by the average number of outstanding shares during the period
Equity per share, SEK	0.476	0.950	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	0.16	1.22	Latest market price paid for the shares on the last trading day of the respective period.

* *Quotient value was reduced to SEK 0.05 after the end of 2008.*

Board of Directors, senior executives and auditor

Board of Directors

Preston Haskell
Chairman of the Board. Preston Haskell is a U.S. citizen, born 1966, and has been active as a businessman in Russian since the early 1990s. Haskell is the founder and main owner of Colliers International, which is based in a number of countries within the former Soviet Union, with offices in Moscow and St. Petersburg, Russia, Kazakhstan, Ukraine, Lithuania, Latvia and Estonia. Haskell is a member of Colliers International's Governing Committee. Haskell has worked in Russia since 1993 and is a co-owner in Forum Properties, one of Moscow's most successful property consultants, which has built over 150,000 square meters of office space and owns a portfolio of Class A properties, including the prize-winning Avrora Business Park and Hermitage Plaza projects.

Haskell is also a member of the Board of Fleming Family and Partners Real Estate Development Fund Ltd. He is also a partner in the property management company FF&P Real Estate Advisory Holdings, Ltd.

Haskell is the founder and Chairman of Office Solutions, which is an authorised retailer of furniture company Steelcase's products in the former Soviet Union and other parts of Eastern Europe. Haskell is also one of the founders and the Working Chairman of the Board of AMARI Land International.

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

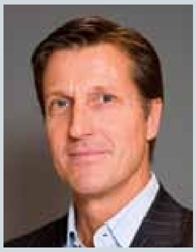
Holding in Central Asia Gold: 2,247,000,000 shares and 374,500,000 warrants.

Lars Guldstrand
Vice 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 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 in GKL Growth Capital AB, Stockholm; Chairman of Paynova AB, Stockholm; Chairman of Eco Energy, Greentech from Scandinavia AB, Stockholm; and Chairman of G-Life AB, Stockholm.

He is also Vice Chairman of Golden Pages Ltd, Israel; and member of the board of Loxystem AB – Lars Guldstrand holds an MBA from California Coast University, California in the U.S.

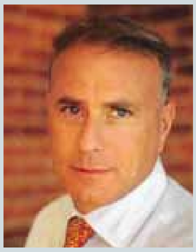
Holding in Central Asia Gold: 5,000,000 shares through companies.



Risto Silander
Risto Silander is a Swedish citizen, born 1957. He has worked for 20 years in investment banking and has held leading positions with Svenska Handelsbanken, Goldman Sachs, UBS and Alfred Berg. In 2001 he stepped down as CEO of the Alfred Berg group to concentrate on business activities in St. Petersburg and board of directors work.

Risto Silander is currently a member of the boards of Svensk Exportkredit AB, East Capital Asset Management AB, 11 Real Asset Fund AB, 11 Invest S.A., Varenne AB, Brevan Howard Offshore Management Ltd., Stronghold Invest AB, E. Öhman Jr. AB and Trygg-Stiftelsen.

Risto Silander has a degree in business administration and economics from the Stockholm School of Economics and has also studied financing within the MBA program at Stern Business School, NYU, in the U.S.
Holding in Central Asia Gold: 0



Mike Nunn
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 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. Mike Nunn left in 2006 to concentrate on developing Amari, but is still the largest shareholder in TanzaniteOne.

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, and has been a member of Central Asia Gold's board since 2004. Perenius graduated with a mining degree from Stockholm's Royal Institute of Technology in 1977. Perenius has worked with geology in the oil and mining industries since 1978, including for Norsk Hydro and Sweden-based SECAB. In addition to being a member of the CAG board, Perenius is also a board member of publicly listed companies Archelon Mineral AB and Capital Oil AB.
Holding in Central Asia Gold: 706,856 shares

Alice Volgina
Alice Volgina is a Russian citizen, born 1966. Alice has a degree in English and Swedish 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

Maxim Kondratyukin
Maxim Kondratyukin is a Russian citizen, born 1981. He studied financial management at the Siberian-American School of Management at Irkutsk State University. Parallel with this (1998–2002) he also studied Business Management at University of Maryland College. Since 2006 he has been in charge of project development at MIEL Regional Investments for property investments. Prior to this he was Head of Marketing at Teletrade D.J International Consulting Ltd. During 2003–2005 he was in charge of strategic planning for Sibirtelecom in Irkutsk. He is also on the boards of LLC Sun Republic in Riga, Latvia and ZAO Almazinvest in Omsk, Russia.

Holding in Central Asia Gold: 753,000,000 shares and 125,500,000 warrants.

Sergey Gorbachev
(see description under the company management section below)

Company management

Sergey Gorbachev
CEO and board member since March 2009. Sergey is a Russian citizen, born in 1973, and has a degree from Moscow State Geological Prospecting Academy and has also studied at the University of Texas in the U.S. Sergey Gorbachev was appointed CEO for the NMC companies, now owned by Central Asia Gold, in early 2008. He previously held various leading positions since 1996 in Russian business, including as head of a Swedish electricity company's Moscow office. He has worked with and been an advisor to Central Asia Gold's new principal owner and Chairman Preston Haskell for many years.

Holding in Central Asia Gold: 0

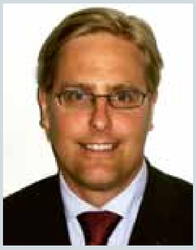
Yuri Ivanov
CFO since March 2009. Yuri Ivanov is a Russian citizen, born 1976. He has a degree from Moscow State Financial Academy. Between 1999 and 2004 he served as CFO for Forum Properties, a Russian property development company. Since then he has been CFO for the NMC companies that are now part of CAG.

Holding in Central Asia Gold: 0

Vladimir Shmakov
CAG's Chief Legal Counsel since March 2009. Vladimir is a Russian citizen, born 1967. He has a degree from Moscow State Institute for International Relations. He also holds a doctorate in international law. Vladimir Shmakov has previously worked in the Russian foreign ministry and the Moscow property sector.

Holding in Central Asia Gold: 0

Auditors



Johan Arpe
Authorised Public Accountant with Öhrlings PricewaterhouseCoopers, born 1973. He has been the company's auditor since 2008.

Corporate governance report

Corporate governance concerns the regulations and structure that exist to govern and manage a company in an effective and controlled way. 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. Its shares are traded under the abbreviation "CAG". CAG has applied the Swedish Corporate Governance Code (the Code) since July 1, 2008. The Code is based on the principle of "follow or explain," which means that companies applying the Code can deviate from the individual rules, but they must give an explanation for such deviation. During 2008 CAG underwent an introductory period, and certain deviations from the Code therefore occur. Owing to the short period that the Company has applied the Code, the account provided may in certain respects not be deemed entirely comprehensive according to the Code. The Company intends to have completed its introductory period as of the 2009 AGM. Governance, management and control of CAG are divided between the shareholders at the AGM, the Board of Directors and the Chief Executive Officer, in accordance with the Swedish Companies Act. This report has not been subject to review by the Company's auditor.

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.

2008 AGM

CAG's 2008 AGM was held on Thursday June 12, 2008 in Stockholm. The minutes from this meeting are available at www.centralasiagold.se.

The following principal decisions were taken:

- The Board of Directors and the Chief Executive Officer were discharged from liability for the past financial year.
- The number of members of the Board for 2008 should be 8, excluding alternates.
- Örjan Berner, Peter Geijerman, Alexander Gerasimov, Paal Hveem, Mikhail Malyarenko, Alexander Merko, Patric Perenius, and Torbjörn Ranta were re-elected to the Board for 2008.
- Mikhail Malyarenko was re-elected Chairman of the Board.
- The Board's fees were set at TSEK 100 to independent board member Örjan Berner and TSEK 20 to each of the other members.
- Remuneration to the Company's auditor is paid according to the invoiced amount following an agreement.
- Authorised Public Accountant Johan Arpe of audit company Ranby Björklund was elected auditor for a period of four years until the 2012 AGM.
- The AGM approved the principal shareholders' proposal for the establishment of principles for appointing the election committee.
- The AGM approved the Board's proposal of guidelines for the remuneration of senior executives.
- The AGM resolved in favour of mandating the Board to make a decision on a new issue of shares in the Company. The mandate authorises the Board until the next AGM to take decisions on one or more occasions regarding a new issue of up to 80 million shares (with a quotient value of 20 öre/each), implying an increase in share capital of up to SEK 16,000,000, corresponding to a dilution of about 16.25% of the Company's share capital and the total number of voting rights, and may therefore diverge from preferential rights for shareholders. Issues shall be carried out on market-based terms. The aim of such a mandate and the reason for a possible deviation from preferential rights for shareholders is so that, in the event that a private placement is carried out for reasons of time or for business considerations, this will be more advantageous for the company.

2009 AGM

The Annual General Meeting of the Shareholders will be held on Wednesday May 27, 2009 at the Confederation of Swedish Enterprise, Storgatan 19, Stockholm. The AGM will start at 3:00 pm, and doors open at 2:30 pm. The annual report for 2008 will be available on the Company's website as of April 30.

Election committee

Principles for the appointment of the election committee, approved by the AGM of June 12, 2008.

The principal owners propose that the AGM establish the following principles: The company shall have an election committee consisting of the Chairman of the Board and four other members representing each of the four owners with the greatest voting rights. Those shareholders with the greatest 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) at October 31, 2008. Those shareholders that are not registered with the Swedish Central Securities Depository and that wish to make use of their voting right should apply to the Chairman of the Board and must be able to demonstrate the ownership relationship. At the earliest convenience after the end of October the Chairman of the Board shall contact the four shareholders with the greatest voting rights, as set out above, and ask them to each appoint a member. If any of the shareholders decline their right to appoint a member to the election 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 that they represent shall be made public no less than six months before the AGM. The election committee's mandate period continues until a new election committee has been appointed. The Chairman of the election committee shall, unless the members agree otherwise, be the member that represents the largest shareholder. If a member leaves the election committee before its work is complete, and if the election committee deems that it is necessary to replace this member, the election committee shall appoint a new member. No fee shall be paid to the members of the election committee.

The election committee may charge fair and reasonable expenses for travel and reports to the Company.

The election committee shall make 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 fee, divided 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 election committee shall make proposals for decisions about principles for establishing a new election committee.

The names of the owner representatives shall be published on the Company's website at the earliest convenience after they have been appointed. Proposals may be sent to valberedning@centralasiagold.se or sent by post to Central Asia Gold AB at: Election Committee, Brovägen 9, 182 76 Stocksund. The election committee up to the 2009 AGM has consisted of: Viggo Leisner representing Spencer Energy A/S (election committee's Chairman), Peter Lindh representing Landå AB, Paal Hveem representing Greenwhich Land Securities A/S, Clas Romander representing Mikhail Malyarenko and Patric Perenius representing Benton International Ltd.

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 with 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, how notifications to attend meetings take place and which documents need to be distributed before Board meetings and how the minutes of Board meetings are to be drawn up. The written instructions regarding financial reporting regulate the reporting system that exists, since the Board needs to be able to continually assess the Company and Group's financial situation and the division of work between the Board and the Chief Executive Officer.

Chairman of the Board of Directors

During 2008 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 conversations with the heads of the subsidiaries.

Members of the Board of Directors

At year-end 2008 Central Asia Gold's Board consisted of seven 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 this document, together with details of the members' independence from the Company and the Company management.

The Board's work in 2008

During 2008 the Board held 18 meetings two of which were by correspondence and eleven were held by telephone. The five other meetings were physical meetings. This compares with a total of eleven Board meetings held during the previous financial year. The increase in the frequency of meetings should be viewed in light of the increasingly challenging business environment in the second half of 2008. The large number of meetings by telephone should be viewed in light of the fact that the Board members live in both Sweden and Russia.

The important issues dealt with by the Board in 2008, 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
- New share issue
- Merger with New Mining Company via an acquisition through an issue in kind
- Spin-off of the subgroup Kopylovskoye AB to shareholders

Board members' attendance at Board meetings

Name	Position	Present Number of total
Mikhail Malyarenko	Chairman of the Board	15/18
Örjan Berner	Member	16/18
Peter Geijerman	Member	17/18
Alexander Gerasimov	Member	12/18
Paal Hveem	Member up to and including August 28, 2008	6/10
Alexander Merko	Member	16/18
Patric Perenius	Member	18/18
Torbjörn Ranta	Member	18/18

Board's division of work

There was no verbal or written division of work for the members of the Board during the 2008 financial year.

Board committees

CAG's Board of Directors chose not to establish any special audit or remuneration committees in 2008. 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 ordinary Board work.

Board fees

The Board of Directors' fees are decided by the AGM. At the AGM of June 12, 2008 it was decided that the fee for the Board for the financial year should be SEK 100,000 to independent Board member Örjan Berner and SEK 20,000 each to the other members. It should be noted that all members of the Board, except for the independent member, waived their fees for the past financial year.

Chief Executive Officer and other senior executives

The Chief Executive Officer, who is also the Head of the Group, has the task of providing ongoing management of the Company. The Board's written instructions establish the division of work between the Board and the Chief Executive Officer. Torbjörn Ranta was Chief Executive Officer and Head of Group for Central Asia Gold from August 2004 until March 12, 2009. He has no shares or ownership in companies with which the Company has significant business connections.

Remuneration of Executive Management

For information about 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 2008.

Auditor

The AGM appoints an auditor to the Company once every four years. The auditor's task is to review the Company's annual report and accounts, as well as the management by the Board and the Chief Executive Officer. The AGM of June 12, 2008 elected, for a period of four years (until the 2012 AGM), Authorised Public Accountant Johan Arpe of audit company Ranby Björklund, which is now part of the Price Waterhouse Coopers group. The audit is conducted in accordance with generally accepted auditing standards in Sweden. The audit of the annual accounts mainly occurs in March and April. The process is started, however, when the review of the nine-month accounts is started from December of the accounting year. No interim reports were 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 that is developed to provide a reasonable assurance that the Company's targets are being met in terms of the business being adapted to its purpose and efficient, financial reporting being reliable and the application of 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 that the Board and company management communicate 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, responsibility and powers, management philosophy, ethical values, staff competence, policies and guidelines, as well as routines. Besides the relevant legislation, the framework within which Central Asia Gold's Board works consists of the owners' aims and the Code. The formal decision-making procedure is based on the division of responsibility between the Board and the CEO that the Board establishes each year in its 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 for the company.

Risk assessment

All business operations involve risk. A structured risk assessment make it possible to identify the material risks that have 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 what preventative measures 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. This annual report sets out 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 that provide details of earnings and cash flow for the past period at subsidiary and group level. Deviations from budgets and forecasts are analysed and commented on. Documented processes exist for the compiling of the information on which financial reports are based.

Information and communication

Central Asia Gold has an information policy, which comprises 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 rules of the Swedish Financial Supervisory Authority and the stock market listing agreement with NGM. The company provides the market with information on an ongoing basis about important events within the group, including its financial position. Information is provided in the form of interim and annual reports. In addition, press releases are issued about news and events that are deemed to be price-sensitive information. All financial information and other press releases are published via NG News 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 such 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 to this, 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 of this, the financial report in February of each year provides targets for expected volume of gold production for the full year. This target is then revised as often as is deemed necessary. Since the gold production is currently highly seasonal, this usually occurs, at the earliest, in the summer months, when production has begun in earnest. It should be noted that in the first quarter of 2009 CAG merged with the Russian gold company NMC. As a result of this, the group's operations will be much larger. New company management and a new Board were appointed in

March 2009. Reporting and monitoring routines will therefore be further developed during the current financial year.

The Board continually assesses the information provided by the company management. Each quarter the CEO reports to the Board on the Company's performance with regard to the targets in the business plan. The Company has chosen not to have separate internal audit. Based on the above, the Board has made an assessment and deemed that the external auditor's expansion of his audit by means of a special review of separate business arrangements or significant business events is sufficient.

Members of the Board during the 2008 financial year

Mikhail Malyarenko (born 1962)
Chairman of the Board, elected 2004.
Graduated with a degree in mining and geophysics from Tomsk Polytechnical University in 1987 and trained at the Russian International Centre for the Oil and Gas Industry (MGIMO) in 1988. He has a total of 20 years' experience in mineral exploration. This includes three years of mining industry experience from the Russian Kemerovo and Krasnoyarsk regions. He also has worked for eleven years in western Siberia with oil exploration and oil production, and another five years with coal, copper and oil trading. Mikhail Malyarenko is now a businessman with eight years' managerial experience, six of which have been in publicly listed companies. During 1993–2002 he was CEO of Russian oil company Vostochnaya Transnatsionalnaya Kompaniya (VTK), which now is a subsidiary of the West Siberian Resources group listed in Sweden (formerly Vostok Oil Ltd), after which he was a member of the VTK board. Besides his work in Central Asia Gold AB, Mikhail today conducts business activities within oil production (Malka Oil AB), oil refining, real estate and winter tourism.

Örjan Berner (born 1937)
Board member, elected 2005.
Örjan holds a degree from Lund University. He began his career within the Swedish foreign ministry in 1960. He then worked for the U.N. in New York during the first half of the 1960s, then as First Secretary at the Swedish Embassy in Beijing during the second half of the 1960s. He was Embassy Counsellor at the Swedish Embassy in Moscow during the first half of the 1970s. Örjan then worked as Swedish Ambassador in a number of countries: i Poland 1984–1987, India 1987–1989, the Soviet Union (later Russia) 1989–1994, Germany 1994–1996 and France 1996–2002. He then worked as Secretary General of the organisation for Swedes living abroad, Svenskar i Världen, and as a businessman. He was previously also Chairman of the Swedish listed oil company Vostok Oil Ltd (West Siberian Resources Ltd).

Peter Geijerman (born 1972)
Board member, elected 2004.
Has an MBA degree from France's INSEAD business school as well as an MSc in Clinical Medicine from Sweden's Karolinska Institutet. He has pursued a career as a businessman in Russia since 1997. He operates a management company that owns and manages an industrial group in western Siberia that is mainly active in road construction and rail transport. He has also worked with acquisitions of agricultural land in Russia via the agriculture company Alpcot Agro AB, and has many years' experience of project and business management in Russia. He speaks fluent Russian.

Alexander Gerasimov (born 1956)
Board member, elected 2006.
Graduated from Tomsk Polytechnical University in 1982 with a degree in mining and geology. Has worked in the mining industry in Russia's regions of Kamchatka (Aginskoye deposit) and Buryatia (Zun-Cholba gold deposit which is now part of the

The Board's shareholdings and independence

Name	Board position	Shareholding as of December 2008	Number of options held as of December 2008	Independent from the company	Independent of major owners in the company
Mikhail Malyarenko	Chairman of the Board	48,915,947	2,000,000	No	No
Örjan Berner	Member	0	0	Yes	Yes
Peter Geijerman	Member	912,857	0	Yes	Yes
Alexander Gerasimov	Member	0	450,000	No	No
Paal Hveem	Member until August 2008 inclusive	40,398,570	0	Yes	No
Alexander Merko	Member and Head of Moscow office	0	0	No	No
Patric Perenius	Member	706,856	0	Yes	Yes
Torbjörn Ranta	Member and CEO	4,271,429	0	No	Yes

Executive management's shareholdings, options and area of operations

Name	Management position	Shareholding as of December 2008	Options held as of December 2008	Area of operations
Torbjörn Ranta	CEO	4,271,429	0	Group
Maria Jansson	Head of Administration	0	450,000	Parent company
Alexander Merko	Head of Moscow office	0	0	Moscow office
Ara Soghomonyan	Moscow Head of Administration	0	80,000	Financial reporting/IFRS reporting
Mikhail Damrin	Business development	0	2,000,000	Business development at subsidiary level

Russian publicly listed gold company Buryatzoloto). He worked as Head Geologist with gold company Karer Barit within the Soviet gold group (regional unit) Zapsibzoloto. He was also head of gold company Tetis in the city of Novokuznetsk in Siberia. He has a total of 24 years' experience in the mining industry.

Paal Hveem (born 1953)
Board member, elected 2006, left the Board in 2008
Has a degree in business administration and economics. Has been a businessman/investor since 1985, primarily focusing on real estate, shipping and commodities. In addition to his involvement with Central Asia Gold AB, Paal is also a member of the Board of Greenwich Land Securities AS.

Alexander Merko (born 1954)
Board member, elected 2005
Graduated in 1976 with a degree in engineering, specialising in food processing, from Odessa State Polytechnic University. His subsequent career has been in the Soviet and Russian grain milling industry. In 1995 he was appointed CEO of Moscow-based milling company Moscow Grain Combine, which produces around 200,000 tons of wheat flour a year. This corresponds to 25-30% of Moscow's annual wheat flour consumption. In summer 2005, Alexander Merko resigned from his position as CEO for Moscow Grain Combine in order to spend more time on other business activities. Alexander Merko also holds a leading position in Benton International Ltd and is a Board member of Malka Oil AB and an adviser to Alpcot Agro AB.

Patric Perenius (born 1951)
Board member, elected 2004
Patric graduated in 1977 with a degree in mining engineering from Stockholm's Royal Institute of Technology. He has worked with geology in the oil and mining industries since 1978, for example for Norsk Hydro and the Swedish company SECAB. In addition to Central Asia Gold AB, Patric Perenius is also a member of the boards of Archelon Mineral AB and Capital Oil AB.

Torbjörn Ranta
Board member, see the information under the Group Management section below.

All Board members, with the exception of Patric Perenius, left the Board at the EGM of March 12, 2009 in connection with the merger with New Mining Company.

Group management

Torbjörn Ranta (born 1962)
Chief Executive Officer, Head of Group, and Board member of Central Asia Gold AB (2004–2009).
Torbjörn graduated in 1982 from the Language and Intelligence School of the Swedish Armed Forces, after which he served at the Swedish Embassy in Moscow until 1983. In 1984, he began studying at the Stockholm School of Economics and graduated with a degree in business administration and economics in 1988. He then worked in the Swedish finance market with corporate finance and share trading until 1996, when Torbjörn become CEO and member of the board of the publicly listed Swedish company Vostok Nafta Investment Ltd. He left Vostok Nafta and took up the position of managing director of Vostok Nafta's subsidiary Vostok Oil Ltd in 2001 when this subsidiary was spun off and listed separately in Stockholm. Torbjörn left his position with Vostok Oil Ltd. in 2003. Torbjörn Ranta speaks fluent Russian. He is currently also a member of the board of the listed oil company Malka Oil AB and other unlisted companies.

Maria Jansson (born 1968)
Parent Company's Head of Administration, and employed since 2007
Maria graduated with a degree in international business administration and economics with specialisation in Russian studies from Uppsala University in 1994. She has also studied Russian at St. Petersburg State University of Economics and Finance. Maria worked from 1995 to 1999 at Lafarge Braas Scandinavia as a Project Manager for operations in the Baltic and Russia and established and headed up the company's St. Petersburg office. Maria then became a product manager with Posten Logistik with responsibility for the marketing and product development of the Bizpak parcel service in Russia, Poland and the Baltic region. Maria speaks fluent Russian.

Alexander Merko (see above under Members of the Board)
Head of the Moscow office

Ara Soghomonyan (born 1978), Head of Group Audit since 2007
A Russian citizen with a degree from University College of Finance, Yerevan (Armenia). He holds an ACCA diploma (British diploma in financial reporting and auditing). Ara has previously worked for PricewaterhouseCoopers in Moscow with auditing and financial reporting, as well as for the consultancy company BDO Unicon Consulting. He has considerable accounting and auditing experience from work in various major companies within the Russian mining and oil industry.

Mikhail Damrin (born 1972)
Mikhail Damrin is Head of Business Development, and is a Russian citizen. He is based in the Moscow office. Since the 1990s he has at various times worked for companies including the Swedish listed company Vostok Nafta Investment and West Siberian Resources, before taking up his position with CAG in 2007. Mikhail received his education in Moscow, and also has an MBA from Cranfield University in England. In early 2009 Mikhail took up the post of Managing Director of CAG's subsidiary Kopylovskoye AB, which was spun off to CAG shareholders at the end of December 2008.

Stockholm, April 29, 2009

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Directors' report

The Board and the Chief Executive Officer for Central Asia Gold AB (publ) hereby submit the annual report for the financial year January 1–December 31, 2008.

Group structure

Central Asia Gold AB ("CAG AB") is a Swedish mining company, operating in eastern Siberia in Russia. In March 2009 CAG carried out a merger with Russian gold company New Mining Company (NMC) by means of an acquisition through an issue in kind. A description of NMC can be found below. As a result of the merger, CAG AB became the parent company for a larger group of Russian gold-producing subsidiaries. This resulted in the former owners of NMC, principally the Moscow-based American entrepreneur Preston Haskell, becoming the principal owners in CAG AB. Before the merger with NMC, CAG AB distributed all shares in its subsidiary Kopylovskoye AB in December 2008 to its own shareholders. This distribution (spin-off) resulted in the subgroup Kopylovskoye AB being deconsolidated in CAG AB's group balance sheet before year-end 2008. Kopylovskoye AB is, however, included in the group profit and loss account until the close of 2008.

At year-end 2008, i.e. before the merger with NMC, the group consisted of the Swedish parent company and three subsidiaries in Russia, one of which is an dormant company. The Russian subsidiaries are all limited liability companies ("OOO"). In addition, the subsidiaries own a large number of sub-subsidiaries in Russia.

CAG AB was listed on the NGM Nordic Growth Market on March 29, 2005. The number of shareholders at year-end 2008 was about 4,800.

Comparing the 2007 and 2008 financial years, in addition to the abovementioned spin-off of the Kopylovskoye AB subgroup, it should be noted that the alluvial gold-producing group company OOO Artelj Lena was acquired at the very end of the second quarter of 2007, and was therefore first consolidated in the group profit and loss account from the third quarter 2007. This means, all other things being equal, that operating expenses increased in 2008 compared with 2007.

In addition, write-downs were made of the two alluvial subsidiaries in the second and third quarters of 2008. The write-downs total TSEK 44,033 and are reported under operating expenses.

Financial items for the 2007 financial year contain a capital gain of TSEK 25,968 as a result of the sale during the year of 25% of the subsidiary Kopylovskoye AB to a group of external investors via a directed issue. In the fourth quarter of 2008 a further 12.5% of this subsidiary was sold. This was a normal sale, at a price of TSEK 10,000 for the shareholding and was not a direct issue. This latest sale instead generated a group-wide capital loss of TSEK 11,831.

Operations

Central Asia Gold is a mining company engaged in prospecting for and production of minerals – currently exclusively gold. As of the end of 2008, the group companies owned several mineral licenses that grant the right to extract minerals within the license areas during the respective license periods. At year-end 2008 the group's licenses, before the merger with the NMC group, were deemed according to Russian standards to comprise a net amount of approximately 464,000 ounces (1 oz = 31.1 g) of gold reserves in the Russian C1/C2 categories and 745,000 oz of gold resources in the P1 category. There are also a further 6,225,000 oz of P2 category gold resources. In total, the group companies produced 834 kg of gold in 2008 (1,073 kg in 2007). This ranks CAG as the 26th largest gold producer in Russia in 2008 of more than 400 producing companies.

OOO Artelj Tyva

The OOO Artelj Tyva sub-subsidiary is an alluvial gold producer. This means that Artelj Tyva produces gold during the warm part of the year, i.e. from May to October. Its gold production in 2008 amounted to 154 kg (approximately 4,950 oz), which was 33% lower than in 2007 when 231 kg (7,400 oz) were produced. The main reason for the lower production were the direct and indirect effects of Russia's high inflation. Owing to increased pay and amenity demands, a large number of experienced specialists left the company during the ongoing season and were replaced with less experienced workers. This resulted in losses in efficiency. Moreover, fuel prices rose dramatically during the first half of 2008 both internationally and in Russia. Diesel constitutes a very significant portion of operating expenses at CAG's two alluvial subsidiaries. The annual consumption of both subsidiaries' fleets of machines is more than 6,000 tonnes (more than 6 million litres) of diesel. The rise in the price of crude oil and diesel in the first six months of 2008 consequently had a very significant effect on the earnings of the alluvial subsidiaries over the past financial year.

OOO Artelj Lena

The OOO Artelj Lena sub-subsidiary is also an alluvial gold producer, but is located in the Bodaibo district of the Irkutsk region. This company was acquired in mid-2007 and was consolidated in the Central Asia Gold group profit and loss account from the third quarter of 2007. Artelj Lena produced a total of 496 kg of gold (15,950 oz) in 2008. This is a 24% decrease on the 648 kg (20,800 oz) of gold produced in 2007. The reasons for the lower production are the same as those noted above for OOO Artelj Tyva.

OOO Tardan Gold

At the end of 2008 the Russian authorities carried out a mandatory review of the reserves for the Tardan deposit within the OOO Tardan Gold subsidiary. During the late Soviet/early Russian period this was defined as containing about 229,000 oz (about 7 tons) of C1+C2 gold reserves. The cut-off grade used at that time was 2g/tonne, and the assessment was made at a depth of no more than 100 meters. Of the total reserves assigned during the Soviet/early Russian period, the five largest ore bodies at that time contained about 160,000 oz of C1/C2 reserves. Over recent years Central Asia Gold has carried out an extensive assessment program for these ore bodies. The new reserve estimate by the Russian mineral reserve committee, via its local branch (TKZ) in Krasnoyarsk, resulted in C1+C2 category gold reserves of 8.4 tonnes (272,000 oz). The estimated average gold grade is just over 4 g/tonne and the new cut-off grade is 0.5 g/tonne. This means that the Tardan deposit is ready for the next phase of production, namely the construction of a heap leach plant. The officially approved gold reserves and prospects of lower future production costs as a result of the ongoing depreciation of the rouble means that CAG's Board sees no need to write down the value of the Tardan deposit at the end of December 2008.

Gold production – processing plant

Gold was also produced at the Tardan deposit in 2008 in the on-site gravimetric plant. The production took place under the applicable pilot production license in accordance with the existing license agreement. Ore processing for January to December 2008 amounted to 83,000 tonnes (53,000 tonnes). A total of 184 kg of pure gold (194 kg) was produced during this period. The gravimetric plant at Tardan was moth-balled at the end of 2008. Gold production at Tardan will be resumed as soon as the planned new heap leach plant is completed.

In addition to producing gold, OOO Tardan Gold is also working with prospecting and evaluation at the two license blocks in the Tardan valley. The aim is to increase the gold reserves within the company. The area of the two license blocks is 520 km², of which the first of the licenses where production is currently performed covers only just over 3 km². A large quantity of mineralisations have been detected at the larger license area, which was partially evaluated during the Soviet period. In 2008 new geophysical data was gathered from the entire license area. This data is still being evaluated. The aim is to define those objects on the license block that are of most interest and then focus the prospecting work on a couple of areas.

Kopylovskoye AB

An extraordinary meeting of the shareholders in CAG AB held at the end of December 2008 decided to distribute all outstanding shares in Kopylovskoye AB to CAG AB shareholders. The record day was December 30, 2008. The share capital structure in Kopylovskoye AB had previously been adjusted via a split on an 849:1 basis so that 849 million shares are now outstanding. The 62.5% that Central Asia Gold owned at the date of the distribution corresponded to 530,625,000 shares, which is the total number of outstanding shares in Central Asia Gold AB at year-end 2008. Consequently the distribution terms meant that on the record day each holder of a CAG share received one share in Kopylovskoye AB. Kopylovskoye AB thus now has about 4,800 shareholders.

The distribution was carried out on a tax-free basis for recipients in accordance with the Swedish "Lex ASEA" tax regulation. This was confirmed by the Swedish Tax Board in a decision dated February 2, 2009. This decision stated that, of the acquisition expense for shares in Central Asia Gold AB, 79 percent should be attributed to these shares and 21 percent to the corresponding shares received in Kopylovskoye AB.

Before the distribution, Kopylovskoye AB acquired the Kavkaz license from CAG AB via the company OOO Kavkaz. The Kavkaz license area is located in the vicinity of the main Kopylovskoye license, which is owned by Kopylovskoye AB. The acquisition price was set at USD 2 million and was paid by means off-setting liabilities between CAG AB and Kopylovskoye AB.

Kopylovskoye AB is now operated as an independent company, and Mikhail Damrin, former head of CAG's Moscow office, has been appointed CEO. The Kopylovskoye AB Board is currently reviewing strategies for the future, and some form of listing in 2009 will be taken into consideration. The aim is to offer OTC trading in Kopylovskoye shares as soon as is practical, as there is a relatively large number of shareholders. A new Board will also be appointed after discussion with the major shareholders

A great deal of geological work was carried out at the Kopylovskoye deposit in 2008: During the year a total of 20 prospecting ditches of a length of 3,800 m were dug across the license block on both sides of the proven ore body over an area of about 1.5 km. In addition, more than 2,600 m of core drilling and nearly 3,000 m of pneumatic drilling was carried out, and 2,900 surface samples taken. The company's sampling unit has had more than 3,000 different samples processed, most of which have been analysed at two external laboratories. The samples primarily related to two prospecting lines located on the western border and to the East of the proven ore body. Following the end of the third quarter of 2008, a major cost-saving program was implemented owing to the financial crisis that began to accelerate in Russia and the rest of the world. A significant part of the work that had been planned was therefore postponed, and instead the number of employees was reduced and the contracted RC drill rig was cancelled. This has enabled costs to be reduced to a minimum, and in 2009 an international mining consulting company will examine all the data in order to produce a report according to international standards. The Board of Kopylovskoye AB will then take a decision about how to continue with prospecting. The company plans to establish a website, www.kopylovskoye.com, in the first half of 2009.

The distribution of Kopylovskoye AB had an accounting effect that resulted in the CAG group's equity, excluding minority holdings, decreasing by MSEK 109. Including minority holdings, the decrease was just over MSEK 159. In addition, total assets in the CAG group decreased by MSEK 220 as a result of the distribution.

OOO Kara-Beldyr

In the autumn of 2008 this gold project became a joint venture with the Canadian gold company Centerra Gold ("Centerra"). The agreement means that Centerra has a right, but not an obligation, to acquire 70% of Kara-Beldyr by investing up to MUSD 6.5 in the project. Centerra will be the operator of the project for as long as it buys into it. During the first half of 2008 a shallow drilling program of around 1,100 m was implemented. The drilling program consisted of shallow RC-like boreholes to a depth of 10 m-30 m. The boreholes were drilled in three lines across the known Gordeyevskoe mineralisation. This is where the mineralisation has historically mostly shown on the surface via surface ditches. The aim of the drilling program was to confirm the historical information and test the gold distribution at a slightly greater depth. During the second half of 2008 an extensive geophysical study was carried out over a 3 square kilometre area at Kara-Beldyr. The results of the prospecting work have so far been as expected. As a result of this it has been decided to follow up with a similar shallow drilling program during the first half of 2009. The aim is to then follow this up with a diamond drilling program. The license for Kara-Beldy was originally owned by OOO Tardan Gold. During the 2008 financial year it was transferred to a new license company, OOO Kara-Beldyr. Ownership of OOO Kara-Beldyr then passed directly to Central Asia Gold AB.

OOO Uzhunzhul

The license for the Uzhunzhul deposit was previously held directly by subsidiary OOO Tardan Gold. During the 2008 financial year it was transferred to a new license company, OOO Uzhunzhul.

This sub-subsidiary is wholly owned by OOO Tardan Gold, but is intended to be transferred to Central Asia Gold in 2009. No special evaluation work was carried out in 2008 on this license block due to the financial crisis in Russia.

New Mining Company (NMC)

As a result of the acquisition of the NMC group through an issue in kind, CAG AB now owns five more Russian limited liability companies located in Russia's Chita region, which borders China. These companies own licenses for a gold prospecting area known as the "Staroverinskaya gold prospective zone" Two mine gold deposits and one alluvial gold deposit have currently been defined within this license block area. The first mine deposit, Bogomolovskoye, underwent a mandatory reserve evaluation by the Russian authorities at the end of 2008. The approved figure amounts to 8.1 tonnes of C1/C2 gold reserves. The pilot production of gold from the Bogomolovskoye deposit started in 2008 from a heap leaching plant, and in 2008 130 kg of pure gold were produced by the plant. The other mine deposit, Kozlovskoye, was estimated at about 10 tonnes of C1/C2 gold reserves in the 1960s, i.e. during the Soviet period. In 2009 this deposit will undergo a new reserve assessment, and the new reserve figure is deemed to be close to the previous figure. The Zolotaya Borzya alluvial deposit contains just over 2 tonnes of extractable C1/C2 gold reserves. Production from this alluvial gold deposit was 140 kg in 2008. The NMC companies together consequently produced 270 kg of gold in 2008. A number of other gold mineralisations exist in the license area and evaluation work is being carried out on some of these. The total number of employees in the NMC companies at the end of 2008 was 300. The individual NMC companies are expected to have about 20 tonnes of registered C1/C2 reserves at the end of 2009, and the previous assessments remain in place that this figure is expected to increase by a further 10 tonnes in 2010.

As a result of CAG AB's takeover of the NMC companies, these companies' balance sheets will be strengthened. Given the preliminary estimates by company management, as of year-end 2008 the NMC companies will, pro forma, have about MSEK 57 in equity and positive working capital. The NMC companies' gold production for 2009 is expected to be in the range of 300–400 kg. For more information about NMC and the effects of the merger on CAG AB please see the latest company presentation on CAG AB's website, at www.centralasiagold.se.

Earnings and revenues – the group

The group reported a net loss after tax for the twelve month period January–December 2008 of TSEK –91,184 (TSEK -2,689), corresponding to SEK -0.186 per share (SEK -0.014). Earnings for the full business year include a TSEK -44,033 write-down of the alluvial subsidiaries Artelj Lena and Artelj Tyva. They also contain a capital loss of TSEK 11,831 attributable to the sale of 12.5% of the shares in the subsidiary Kopylovskoye AB to a group of external investors. This transaction took place in the fourth quarter.

Gold sales during the reporting period amounted to TSEK 150,726 (TSEK 160,967). The amount of gold sold during the reporting period was 836 kg (1,111 kg).

In addition, the group profit and loss statement includes an income item of TSEK 19,770 (TSEK 19,910) that chiefly concerns transport services performed by the transportation subsidiaries, performed in part for external customers. Tardan Gold has also conducted external drilling and construction services since the end of 2008. The holding in the transport companies was disposed of at the end of the third quarter of 2008 in connection with the CAG group's purchase of the fixed assets from the transport companies normally used by the group. These two transport companies were consequently deconsolidated as of the fourth quarter of 2008.

The change in final stocks and goods under manufacture amounted to TSEK 5,864 (TSEK 6,973) during the 2008 financial year.

During the reporting period prospecting costs of TSEK 53,745 at subsidiary level were capitalised (TSEK 43,255).

Total group operating expenditure for the 2008 financial year was TSEK 305,643 (TSEK 256,845). The abovementioned write-downs of TSEK -44,033 are included in operating expenditure for the entire reporting period. The difference between operating expenditure for the 2007 and 2008 financial years is also due to the subsidiary OOO Artelj Lena being acquired in mid-2007. This was first included in the group profit and loss statement from the third quarter of 2007.

Net financial items amounted to TSEK -21,519 for the 2008 financial year (TSEK 34,228). The difference between the financial years is primarily due to a capital gain that occurred in the third quarter of 2007. This capital gain related to the subsidiary Kopylovskoye AB. During the fourth quarter of 2008 a 12.5% share of the subsidiary Kopylovskoye AB was sold to a group of external investors for TSEK 10,000. This sale resulted in a capital loss of TSEK 11,831 for the group, which is included in net financial items.

Tax revenues for the reporting period were TSEK 5,775 (TSEK -11,669). This positive tax item relates primarily to the change in deferred tax at subsidiary level. The minority holdings' share of the net result after tax for the 2008 financial year was TSEK -5,038 (TSEK 3,077).

Parent company

The Swedish parent company is a holding company without significant operational activities. It supports the subsidiaries with financing, investor relations and strategic decisions, etc. However, it has no earnings other than revenues in the form of interest on loans to the subsidiaries and interest on bank loans. Its number of employees was six at the end of the reporting period, including the Moscow representative office (8). The net loss for the 2008 financial year was TSEK -28,947 (TSEK -11,065). Included in the twelve month earnings are write-downs of TSEK -49,610 related to the Artelj Tyva and Artelj Lena subsidiaries. This write-down was recorded in the accounts in the third quarter of the financial year. In the fourth quarter of 2008 a capital loss of MSEK -8,727 occurred as a result of the sale of 12.5% of the shares in Kopylovskoye AB to a group of external investors. The sale price was MSEK 10. The sale of the subsidiary OOO Kavkaz at the same time, however, resulted in a capital gain of TSEK 13,519. In addition, the strengthening of the U.S. dollar and depreciation of the rouble in the fourth quarter resulted in substantial foreign exchange profits. As previously mentioned, at the end of the fourth quarter all the remaining shares in Kopylovskoye AB were distributed to CAG AB shareholders. The record day for the distribution was December 30, 2008, and the shares were registered at the start of January 2009. The distribution has resulted in a TSEK 93,558 decrease in the parent company's equity.

The parent company's cash holdings amounted to TSEK 30,456 at December 31, 2008 (TSEK 8,718).

Investments and liquidity

Investments in tangible and intangible fixed assets for the 2008 financial year amounted to TSEK 59,346 (TSEK 165,403).

The cash balance in the group amounted to TSEK 34,230 at the end of December 2008 (TSEK 69,843).

Share capital, shares issued, warrants and outstanding mandates

A preferential rights issue was carried out in June 2008. This was carried out at a price of SEK 0.55, with 117,774,304 new shares being issued. At the same time, 58,887,152 share warrants valid until the beginning of December 2008 were issued. The strike price was also SEK 0.55 SEK per warrant corresponding to one share. Due to the fall in the CAG share price during autumn 2008 only a limited number of the warrants were used. At the end of December a further nearly 500,000 shares were issued to a Swedish insurance company in order to ensure that the number of outstanding shares in the company was even in connection with the planned distribution of CAG's subsidiary Kopylovskoye AB to Central Asia Gold's shareholders. The number of shares outstanding at December 31, 2008 was consequently 530,625,000. At the EGM of December 22, 2008 the decision was taken to reduce the quotient value of the shares to SEK 0.05 from SEK 0.20. Registration was carried out after year-end. The registered share capital at the end of 2008 consequently amounted to SEK 106,125,000.

In addition to this, a share option program aimed at the group's senior executives was approved at the 2007 AGM. This program comprised a total of 14,500,000 share options. The options can be exercised up to and including July 2009, and the strike price was originally SEK 2.25/option, corresponding to one share. The rights issue in June 2008 resulted in the strike price being recalculated at SEK 2.00 per option corresponding to one share. The distribution of Kopylovskoye AB in December 2008 reduced the strike price further to SEK 1.76. Both events have also led to the number of shares to which each option grants entitlement now being SEK 1.28. The options can only be exercised towards the end of their term. The stock market price of CAG shares is, however, significantly lower than the issue price of the options at year-end 2008.

The AGM in June 2008 authorised the Board to issue up to 80 million shares with or without preferential rights for existing shareholders for the period until the 2009 AGM. This authorisation was replaced at the EGM held on March 12, 2009 by a new authorisation, following the reverse stock split, covering such issues of up to 10,000,000 new shares, implying a total capital increase of up to SEK 100,000,000. This latter authorisation is also valid up until the 2009 AGM. None of the authorisations has yet been utilised.

Financial targets

The Board of Directors considers that the equity/assets ratio of the group during the start-up stage, i.e. before large-scale production has started, should be at least 75%. The equity/assets ratio may be lower at a later stage. However, it should not fall below 50%. At year-end 2008 the group's equity/assets ratio, including the minority share of equity, was 70.7%. This is considered to be satisfactory in the current situation.

Short-term interest-bearing debt shall be avoided if possible. When considering interest-bearing credits, the term of the loans shall preferably not be less than two years.

Liquidity management

Surplus liquidity, i.e. liquid assets that in the short term will not be invested in operations, shall as far as possible be held in group accounts in the West, i.e. it shall not be left in the Russian banking system. As a rule, surplus liquidity shall be invested in savings accounts or in short-term interest-bearing instruments without any significant credit risk.

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

Tax situation

It is estimated that during its start-up stage the group will not show significant visible profits. In Russia, however, there is no requirement for consolidated accounts, and neither are group contributions possible as they are, e.g., in Sweden. This means that a tax profit in one Russian subsidiary cannot be offset against tax deficits in another. Deductions for tax losses within one particular subsidiary can, however, be offset against future taxable profits under certain conditions. This can result in the group incurring tax costs despite the group not making an accounting profit.

Another factor to consider is the change in what is known as deferred tax. Deferred tax is calculated according to the balance sheet method for all temporary differences that arise between reported values and the tax values of assets and liabilities. The change in deferred tax does not affect cash flow.

In addition to taxes on profits, Russian gold producers pay a royalty tax on the gold they produce. This tax is independent of whether or not the company makes a profit. The royalty amounts to 6% of the sales value of the gold and is paid when the sale is carried out. In addition, Russian companies pay certain minor taxes on the book value of their fixed assets.

The only income sources for the Swedish parent company are interest income on loans extended to the subsidiaries, as well as on surplus liquidity deposited in Sweden from time to time. There can occasionally be a net effect from the impact of exchange rate movements on foreign loans and foreign currency bank deposits. In view of the administrative costs arising in the parent company, it is judged that no or only limited corporate income tax will be payable in Sweden during the next few years.

In total it is expected that the group will only pay limited cash company tax but relatively significant royalty tax over the next few years.

Currency policy

The capital expenditure of the group is mainly made in roubles. Revenue is mainly U.S. dollar-related because the international gold price is established in U.S. dollars. The Russian gold price is then derived by translating the global gold price into roubles. A significant strengthening of the rouble against the USD is therefore negative for the group. However, since the group reports costs and revenues in Swedish krona (SEK) it may also be affected by the rouble's movement against the Swedish krona. In the first half of 2008 the rouble strengthened against the U.S. dollar, but weakened slightly in the second half. The rouble was relatively stable against the krona in 2008. Since then the rouble has significantly fallen in value against international currencies during early 2009.

In general, group surplus liquidity is recorded in USD and in SEK, each with roughly the same weighting. Re-weighting occurs from time to time based on the company management's evaluation of the expected currency rate development over the coming twelve-month period. In order to protect the group against any significant strengthening of the rouble against the dollar, we may from time to time consider buying short-term interest-bearing instruments in roubles, and in such event only instruments with very high credit value, such as government bonds. Any investment in currency-related derivatives is unlikely to be used to any significant extent.

Gold price hedging

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 creditor banks.

Real estate

The Central Asia Gold group owns no properties other than the modest production-related buildings within the various Russian subsidiaries. All administrative operations are carried out at rented premises.

Environment

The industrial operations at subsidiary level comply with all existing environmental requirements. No environmental accidents or incidents occurred during the financial year.

Employees

The average number of employees in group companies during 2008 was 991 (1,199). At year-end 2008 there were 898 employees (1,288).

Board meetings

At year-end 2008 Central Asia Gold AB's Board of Directors consisted of seven members, since one member left the Board in early autumn 2008 owing to time constraints. At this time, three of the Board's members were Russian citizens and the other four Swedish. The meetings are conducted in Swedish with simultaneous interpretation into Russian. The EGM of March 12, 2009 appointed a new Board of Directors, as set out below. Further details are provided below.

During the 2008 financial year the Board convened eighteen times, compared with eleven times during the previous financial year. The increase in the frequency of meetings should be viewed in light of the increasingly challenging business environment in the second half of 2008. Of these eighteen meetings, two were held by correspondence, eleven were held via telephone conferencing and five were physical meetings.

The most important decisions taken during the year included the establishment of the budgets for the 2008 business year, decisions to carry out a rights issue in June 2008, decisions to spin off Kopylovskoye AB to CAG shareholders, and to carry out an acquisition (merger) through an issue in kind of the Russian company NMC.

Significant events since the end of the financial year

CAG-NMC merger

On November 3 a purchase agreement was signed with the owners of the Russian gold company New Mining Company (NMC). In technical terms, the transaction was carried out by CAG AB taking over ownership of NMC by means of a share issue in kind. The sellers of the assets, Preston Haskell and Andrey Kondratyukin, together received, through their holding companies, 3,000,000,000 newly issued shares and 500,000,000 share warrants with a strike price of SEK 0.20 per share and a term of three years. An EGM on December 22, 2008 approved the transaction and the two sellers together now control 85% of the capital and votes in CAG AB after completion of the transaction, which took place in March 2009. The NMC group consists of five different companies located in the Chita region in eastern Siberia. The group's gold assets comprise two mine deposits and an alluvial gold deposit. In 2008 they produced 270 kg of gold. There is a heap leach plant, which is in start-up phase. The first of the two mine deposits was subject to official reserve approval at the end of 2008, as a result of which 8.1 tonnes of C1/C2 gold reserves were established. The gold reserves in the three deposits are currently estimated to total about 20 tonnes. NMC's gold production is estimated to be 300–400 kg in 2009.

Extraordinary meeting of CAG shareholders held on March 12, 2009

This meeting elected the Board, details of which can be found below. At this meeting, Preston Haskell was elected Chairman of the Board. In addition, a consolidation (reverse stock split) of the share capital on a 200:1 basis was approved. As a result of this, the new quotient value of CAG shares is SEK 10 after the consolidation and the number of outstanding shares will consequently decrease to 17,653,125. This includes those shares issued to the sellers of NMC as remuneration for the NMC assets. This meeting also mandated the Board – until the next AGM, with or without deviation from shareholders' preferential rights, – to decide on the issue of a total of up to 10,000,000 new shares (after the consolidation), corresponding to a dilution of about 33.2 percent of the Company's share capital and total votes. The issue price shall be as close as possible to the market value at any particular point in time. Shortly after the date of the shareholders' meeting, a new group management was appointed for the Company. This includes Sergey Gorbachev (CEO), Yury Ivanov (CFO) and Vladimir Shmakov (Chief Legal Counsel).

Currency and gold price development in 2009

The Russian rouble does not have a fixed rate against other currencies, but instead fluctuates in value, although strongly influenced by the Russian Central Bank. In 2009 the exchange rate was allowed to depreciate significantly. In the first two months of 2009 the rouble fell almost 20% against the U.S. dollar. This implies significantly lower operating expense for Russian gold companies, all other things being equal. In addition, the international gold price has risen in U.S. dollars in 2009. The rise in the price of gold in roubles is therefore even greater.

Loan to the company Zabaikalgeoresurs

In 2007 the subsidiary OOO Tardan Gold granted a loan to the Russian company Zabaikalgeoresurs. The loan was granted in connection with OOO Tardan Gold's acquisition of CAG's former subsidiary OOO Kopylovsky. The loan is in roubles and fell due for repayment in January in 2009. At year-end 2008 the principal and interest of the loan amounted to TSEK 2,558. The borrower intends to repay the loan with interest, but has not yet done so after the end of the period. Discussion are ongoing at the time of writing about how this situation should be settled.

Planning ahead

Central Asia Gold estimates that the production of gold from the group's various production units in 2009 will be in the range of 800–1,000 kg. CAG also estimates that the weak rouble will result in lower production costs compared with 2008 and better operating cash flow.

Financial situation

The Board for Central Asia Gold takes into consideration the following factors in its financial planning; namely, existing cash assets, cash flow from the subsidiaries' gold sales, as well as existing loans and the prospect of established promises of credit from various commercial banks. In view of these factors, the Board deems that the group currently has sufficient working capital for the financing of the business for the next twelve months. In the event of additional liquidity requirements, the Board will consider taking on new debt and various kinds of new issues. The new principal owner Preston Haskell has, in this regard, publicly undertaken to guarantee any new issues in the Company up to SEK 125 million in the 2009 financial year if deemed necessary.

Significant risks and points of uncertainty

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

Gold price risk

Central Asia Gold's revenue flow in principle currently consists of only one income source; namely, revenues from the group's gold sales. 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. There is no guarantee that it will not fall in the future. If the gold price falls, this will have a negative effect on the Central Asia Gold group's financial position.

Planning and financing risk

Developing gold deposits is highly capital-intensive. It usually takes 5-8 years, including the prospecting phase, to put a mine into production. During these early years the mine requires access to finance. If the mine owners themselves do not have sufficient means they will be dependent upon external sources of finance. For Central Asia Gold, this usually means equity financing via share issues on the stock market. If development itself is delayed, or if risk aversion in the stock market increases, difficulties may arise in putting the mining deposits into production or bringing them into large-scale production. Such risks are very material for young companies in general, and they apply especially to Central Asia Gold.

Political risks

Central Asia Gold currently operates in only one country in Central Asia; namely, Russia. Russia is a young democracy and the political situation is not as stable as it is in the older democracies of Western Europe. Intervention from the Russian authorities in the private business world is not uncommon. For example, this may concern the areas of tax or environmental legislation. In recent years, particularly within the oil industry in Russia, thorough inspections have begun to be made of companies' environmental measures. The Russian gold industry may very well be subject to greater inspection by the authorities, and in such an event this may have a negative affect on Central Asia Gold. The apparent deterioration in Russia's heavily oil-based economy in 2008 and early 2009 could also lead to a general increase in social tensions in Russia.

Geological risks

All estimates of extractable mineral reserves in the ground are largely based on probability-based assessments and economic factors, e.g. the market price of gold. There are therefore no guarantees that estimated gold reserves will remain unchanged over time.

Inflation risk

The Russian economy has been subject to significant inflationary pressure in recent years, including 2009. This has a direct effect on the production costs of a gold company. There is no guarantee that inflation will slow down in 2009, although many factors point to this.

Third-party risk

In certain cases the group may be dependent on services, access to equipment and assistance during construction provided by third parties to fulfil its operating plans. This dependence on outside parties may negatively affect the group's profits and the time taken to implement the operating plan.

Legal risk

Subsidiary OOO Artelj Lena is involved in various disputes. The issues in question relate to the period before Central Asia Gold took over ownership of OOO Artelj Lena. It is still unclear whether a resumption by former members of the dissolved Artelj Lena workers' collective automatically implies that they would also be reinstated as owners in the new limited liability OOO Artelj Lena. Central Asia Gold has presumed that this would be the case and has made a corresponding provision. There is, however, no guarantee that additional members that were wrongly excluded from the workers' collective may not try to regain their rights through OOO Artelj Lena.

Proposal for guidelines on remuneration to the company management in the CAG group

The Board proposes that the Annual General Meeting on May 27, 2009 approve guidelines for remuneration to senior executives in the Central Asia Gold Group ("the Group"), principally according to the following:

The guidelines shall apply for remuneration and other conditions of employment for the CEO and for other members of the Group's management ("the Group Management").

Guidelines

The guidelines shall apply to the employment contracts that are entered into following the decision of the shareholders' meeting, and in the event of changes being made to existing conditions after this time. The Company shall endeavour to offer a total remuneration that is reasonable and competitive given the conditions in the individual country. Remuneration shall vary in relation to the individual's and the Group's performance. It is proposed that the total remuneration to the Group's management may consist of the components stated below.

Fixed salary

The fixed salary ("the Basic Salary") shall be market-adjusted and based on responsibility, competence and performance. The fixed salary shall be revised each year.

Variable pay

Variable pay shall, where applicable, be related to the company's earning capacity with regard to its equity, reserve and production growth, as well as specific goals within the respective employee's area of responsibility. Variable pay shall, where applicable, be issued annually and shall amount to a maximum of twice the annual Basic Salary.

Long-term incentives

The Board intends to regularly evaluate the need for a long-term incentive programme, which shall be proposed at the Annual General Meeting.

Insurable benefits

Old age pension, sickness benefits and medical benefits shall, where applicable, reflect the rules and practice of the local country. Where possible, pension plans shall be contribution-based. In individual cases, depending on the tax and/or social insurance legislations that apply for the individual, other adjusted pension plans and pension solutions may be approved.

Other benefits

Other benefits shall possibly be made available to individual members of the Group Management or the entire Group Management. These benefits shall not constitute a significant proportion of total remuneration. The benefits shall, moreover, correspond to what is normally applicable in the market.

Notice of termination and severance pay

The notice of termination period shall be a maximum of twelve months upon notification initiated by the Company and a maximum of six months upon notification initiated by a member of the Group Management.

In individual cases, the Board shall be able to approve severance pay beyond the period of notice. Severance pay can only be paid following notification of termination of employment by the Company or when a member of the Group management gives notice of resignation due to a significant change in the member's work situation resulting in him or her not being able to perform his or her work to a satisfactory degree.

Deviation from the guidelines

The Board shall be entitled to deviate from these guidelines if, in individual cases, there is a special reason for this.

Proposal for profit distribution

The group's equity at year-end 2008 amounted to TSEK 252,795. The loss for the year in the parent company was TSEK -28,947. The total accumulated loss amounted to TSEK -56,637. The Board and the Chief Executive Officer propose that the parent company's accumulated loss be carried forward and that no dividend be paid for the financial year.

The Board and the Chief Executive Officer confirm that the group accounts and the annual report, respectively, have been drawn up in accordance with the international accounting standards in the European Parliament and Council decree (EC) no. 1606/2002 of July 19, 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 parent company's position and earnings.

The directors' report for the group and the parent company, respectively, give a true and fair view of the group's and the parent company's activities, position and earnings, and describe significant risks and points of uncertainty faced by the parent company and the companies within the group.

Stockholm, 29th April 2009

Preston Haskell
Chairman of the Board

Lars Guldstrand
Member

Maxim Kondratyukin
Member

Mike Nunn
Member

Patric Perenius
Member

Risto Silander
Member

Alice Volgina
Member

Sergey Gorbachev
Managing Director and member

The above Board of Directors was elected at an extraordinary meeting of the shareholders on March 12, 2009 as a result of the merger between Central Asia Gold AB and the Russian NMC group.

The annual report and the group report have, as stated above, been approved for issue by the board on the 29th April 2009. The group's profit and loss account and balance sheet, and the parent company's profit and loss account and balance sheet, will be object of ratification at the annual general meeting on the 27th May 2009.

Consolidated income statement

(all amounts in TSEK)	Note	2008-01-01 – 2008-12-31	2007-01-01 – 2007-12-31
Net sales		170,496	180,877
Activated work for own account	7	53,745	43,255
Change in work in progress and finished goods		5,864	6,973
Other operating income		98	492
		230,203	**231,597**
Operating costs			
Other external costs	1	-137,479	-115,052
Personnel costs	2	-93,234	-106,275
Depreciation of tangible and intangible fixed assets	3,7	-30,897	-35,518
Write-down of tangible and intangible fixed assets	3, 23	-44,033	–
		-305,643	**-256,845**
Operating result		**-75,440**	**-25,248**
Result from financial investments			
Financial income	4	705	36,190
Financial expenses	5	-22,224	-1,962
Result after financial items		**-96,959**	**8,980**
Tax on this year's result	6	5,775	-11,669
Net result for the year		-91,184	-2,689
Whereof attributable to:			
The parent company's shareholders		**-86,146**	**-5,766**
Minority		**-5,038**	**3,077**
Earnings per share before dilution, SEK	17	-0.186	-0.014
Earnings per share after dilution, SEK		-0.186	-0.014
Number of shares at the end of the financial year		530,625,000	412,210,070
Average number of shares outstanding during the financial year		463,300,212	405,677,654
Average number of shares outstanding for the period after dilution		463,300,212	405,677,654

Consolidated balance sheet

(all amounts in TSEK)	Note	2008-01-01 – 2008-12-31	2007-01-01 – 2007-12-31
FIXED ASSETS			
Intangible fixed assets			
Mining permits and capitalised exploration costs	7	103,791	213,535
Tangible fixed assets			
Buildings and land	8	38,186	65,641
Machinery, technical equipment and inventories	9	42,589	98,371
Construction in progress	10	5,406	11,870
		86,180	**175,882**
Financial fixed assets			
Other securities holdings	25	383	386
Other long term receivables	13	–	2,896
Deferred taxes recoverable	6,13	5,449	20,376
Total fixed assets		**195,803**	**413,075**
CURRENT ASSETS			
Goods in stock	15	76,538	55,506
Accounts receivable		776	11,227
Other short-term receivables	16	47,647	49,031
Prepaid expenses and accrued income	16	4,837	15,731
Cash and bank holdings	22	34,230	69,843
Total current assets		**164,028**	**201,338**
TOTAL ASSETS		**359,831**	**614,413**
EQUITY AND LIABILITIES			
EQUITY	17		
Share capital		106,125	82,442
Additional paid in capital		272,407	332,359
Other reserves		-4,669	-8,886
Retained earnings		-121,068	-14,410
TOTAL EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S SHAREHOLDERS		**252,795**	**391,505**
Minority interest	28	1,595	51,324
TOTAL EQUITY INCLUDING MINORITY		**254,390**	**442,829**
LONG TERM LIABILITIES			
Deferred tax debt	6	29,614	50,316
Provisions	18	1,335	1,226
Other long-term liabilities	19	11,596	33,359
Total long-term liabilities		**42,545**	**84,901**
SHORT-TERM LIABILITIES			
Accounts payable to suppliers		10,615	42,511
Tax liabilities		0	7,106
Other short-term liabilities		49,368	31,355
Accrued costs and prepaid income	20	2,913	5,711
Total short-term liabilities		**62,896**	**86,683**
TOTAL EQUITY AND LIABILITIES		**359,831**	**614,413**
ASSETS PLEDGED	27		
Bank accounts		–	50
Fixed assets		8,182	–
CONTINGENT LIABILITIES		none	none

Consolidated statement of changes in equity

(All figures in TSEK)	Share capital	Additional paid in capital	Other reserves	Retained earnings	Minority interest	Total Equity
Equity as of January 1, 2007	**73,239**	**258,512**	**-6,415**	**-11,720**	**514**	**314,130**
Exchange rate difference			-2,471			**-2,471**
Total transactions booked directly to equity			**-2,471**			**-2,471**
Result for the year				-2,690		**-2,690**
Total income and costs						
New share issue	9,203	86,496				**95,698**
Cost of new share issue		-12,649				**-12,649**
Change of minority interest					50,810	**50,810**
Equity as of December 31, 2007	**82,442**	**332,359**	**-8,886**	**-14,410**	**51,324**	**442,829**
Equity as of January 1, 2008	**82,442**	**332,359**	**-8,886**	**-14,410**	**51,324**	**442,829**
Exchange rate difference			4,217			4217
Total transactions booked directly to equity			**4,217**			**4217**
Result for the year				-91,184		-91,184
Total income and costs						
New share issue	23,683	41,652				65,335
Cost of new share issue		-8,046				-8,046
Dividend of Kopylovskoye AB		-93,558		-15,474	-49,729	-158 761
Equity as of December 31, 2008	**106,125**	**272,407**	**-4,669**	**-121,068**	**1,595**	**254,390**

Consolidated cash flow statement

(all amounts in TSEK)	Note	2008-01-01 – 2008-12-31	2007-01-01 – 2007-12-31
Operating activities			
Operating result		-75,440	-25,248
Adjustment for items not included in the cash flow	23	74,930	35,518
Interest received		705	7,257
Interest paid		-8,776	-1,962
Paid income tax		-122	-681
Cash flow from operations before changes in working capital		**-8,703**	**14,884**
Changes in working capital			
Decrease(+)/increase(-)in stock		-18,499	-2,948
Decrease(+)/increase(-)in accounts receivable		18,208	27,864
Decrease(-)/increase(+)in liabilities		6,121	-36,657
Total change in working capital		**5,830**	**-11,741**
Net cash flow used in operating activities		**-2,873**	**3,143**
Investment activities			
Acquisition of subsidiary company	21	–	-39,226
Investment in intangible fixed assets		-53,745	-36,634
Investment in tangible fixed assets	24	-5,601	-89,543
Net cash flow from investing activities		**-59,346**	**-165,403**
Financing activities			
New share issue proceeds, net, after issue cost		57,289	148,555
Loans taken up		9,972	32,705
Amortization of loans		-27,557	–
Loans given		–	-2,902
Other long-term receivables		3	-28,568
Dividend of subsidiary		-13,173	–
Net cash flow from financing activities		**26,534**	**149,790**
Cash flow for the year		-35,685	-12,470
Liquid assets at start of period		69,843	81,947
Exchange rate difference on liquid assets		72	366
Liquid assets at end of period	**22**	**34,230**	**69,843**

Parent company income statement

(all amounts in TSEK)	Note	2008-01-01 – 2008-12-31	2007-01-01 – 2007-12-31
Operating costs			
External costs	1	-8,148	-6,473
Personnel costs	2	-4,804	-4,596
Depreciation of tangible fixed assets	3	-5	-5
Operating result		**-12,957**	**-11,074**
Result from financial investments			
Other interest income and similar items	4	42,641	3,704
Interest costs and similar items	5	-58,631	-3,695
Result after financial items		**-28,947**	**-11,065**
Tax on this year's result	6	–	–
Result for the year		**-28,947**	**-11,065**
Earnings per share before dilution, SEK		-0.062	-0.027
Earnings per share after dilution, SEK		-0.062	-0.027
Number of shares at the end of the financial year		530,625,000	410,210,070
Average number of shares outstanding during the financial year		463,300,212	405,677,654
Average number of shares outstanding during the financial year after dilution		463,300,212	405,677,654

Parent company balance sheet

(all amounts in TSEK)	Note	2008-01-01 – 2008-12-31	2007-01-01 – 2007-12-31
FIXED ASSETS			
Intangible fixed assets			
Mining permits	7	392	377
Tangible fixed assets			
Office equipment	9	2	7
Financial fixed assets			
Participation in subsidiary companies	11, 12	254,412	411,445
Loans to subsidiaries	14	113,167	53,376
			464,821
Total fixed assets		**367,972**	**465,205**
CURRENT ASSETS			
Other short-term receivables	16	13,187	158
Prepaid expenses and accrued income	16	374	106
Cash and bank holdings	22	30,456	8,718
Total current assets		**44,017**	**8,982**
TOTAL ASSETS		**411,989**	**474,187**
EQUITY AND LIABILITIES			
EQUITY	17		
Restricted equity			
Share capital		106,125	82,442
Statutory reserve		68,032	68,032
Total restricted equity		**174,157**	**150,474**
Unrestricted equity			
Share premium reserve		204,375	264,327
Retained earnings		-27,690	-16,625
Net result for the year		-28,947	-11,065
Total unrestricted equity		**147,738**	**236,637**
TOTAL EQUITY		**321,895**	**387,111**
SHORT-TERM LIABILITIES			
Accounts payable to suppliers		297	284
Liability to group companies		87,828	84,621
Tax liability			1
Other short-term liabilities		134	521
Accrued costs and prepaid income	20	1,835	1,649
Total short-term liabilities		**90,094**	**87,076**
TOTAL EQUITY AND LIABILITIES		**411,989**	**474,187**
ASSETS PLEDGED	27		
Bank accounts		–	50
CONTINGENT LIABILITIES		–	none

Parent company's statement of changes in equity

(All figures in TSEK)	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Total equity
Equity as of January 1, 2007	**73,239**	**68,032**	**190,480**	**-16,625**	**315,127**
Result for the year				-11,065	-11,065
Total income and costs				**-11,065**	**-11,065**
New share issue	9,203		86,496		95,698
Cost of new share issue			-12,649		-12,649
Equity as of December 31, 2007	**82,442**	**68,032**	**264,327**	**-27,690**	**387,111**
Equity as of January 1, 2008	**82,442**	**68,032**	**264,327**	**-27,690**	**387,111**
Net result for the year				-28,947	-28,947
Total income and costs					
New share issue	23,683		41,652		65,335
Cost of new share issue			-8,046		-8,046
Dividend of Kopylovskoye AB			-93,558		-93,558
Equity as of December 31, 2008	**106,125**	**68,032**	**204,375**	**-56,637**	**321,895**

The parent company's cash flow statement

(all amounts in TSEK)	Note	2008-01-01 – 2008-12-31	2007-01-01 – 2007-12-31
Operating activities			
Operating result		-12,957	-11,074
Adjustment for items not included in the cash flow			
Depreciation		5	5
Interest received		304	527
Paid interest		-7	-3
Cash flow from operations before changes in working capital		**-12,655**	**-10,545**
Changes in working capital			
Decrease(+)/increase(-)in accounts receivable		-134	18,596
Decrease(-)/increase(+)in accounts payable to suppliers		13	182
Decrease(-)/increase(+)in liabilities		-213	653
Net cash flow used in operating activities		**-12,989**	**8,886**
Investment activities			
Investment in intangible fixed assets		-15	–
Shareholders' contribution to subsidiary company		-735	-134,444
Investment in tangible fixed assets		0	-107,143
Loans to subsidiaries		-31,869	-8,492
Net cash flow from investing activities		**-32,619**	**-250,079**
Financing activities			
New share issue proceeds, net after issue cost		57,289	82,697
Loans taken up from subsidiaries		–	86,839
Disposal of shares in subsidiaries		9,985	–
Net cash flow from financing activities		**67,274**	**169,536**
Cash flow for the period		21,666	-71,657
Liquid assets at start of period		8,718	80,009
Exchange rate difference on liquid assets		72	366
Liquid assets at end of period	**22**	**30,456**	**8,718**

Accounting principles

General information
Central Asia Gold AB (publ) (Parent company or Company) and its subsidiaries (all together the Group) currently explores for and produces the mineral gold in four different regions in the Russian Federation. Gold produced during 2008 amounted to 834 kg. After the close of the 2008 financial year the Company implemented an acquisition in-kind of five companies similarly engaged in gold production in Russia. Together these new subsidiaries have been designated New Mining Company or NMC. The Group has thereby become considerably bigger. In this connection a new Board of Directors and executive management has also been appointed for the Company during March 2009.

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 Brovägen 9, 182 76 Stocksund.

The parent company has been listed on the Swedish exchange NGM's Equity list since March 2005. At present there are some 5,000 shareholders.

The Board has approved these consolidated accounts for publication on 29 April, 2009.

Summary of important accounting principles
The most important accounting principles applied when these consolidated accounts were drawn up are specified below.

Basis for the preparation of reports
The group accounts for the Central Asia Gold group are prepared in accordance with the Annual Accounts Act and with the IFRS international accounting principles, IFRS and interpretations from IFRIC, as they have been accepted by the EU, and in accordance with RFR 1.1 "Supplementary accounting regulations for groups".

In all significant ways the parent company applies the same accounting principles as the group. In addition the parent company applies RFR 2.1 "Accounting for legal entities".

Consolidated accounts
The financial reports have been prepared as per the acquisition value method unless otherwise stated.

Tangible fixed assets, long-term debts and provisions consist, in all significance, only in a sum that is expected to be recouped or paid after more than 12 months calculated from the balance date.

Tangible fixed assets and short-term debts consist, in all significance, only in a sum that is expected to be recouped or repaid within 12 months from the balance date

Subsidiaries
The acquisition method is used to report the Group's acquisitions of subsidiaries. The acquisition cost for an acquisition consists of the fair value of assets provided as a payment, equity instruments issued and liabilities arising or taken over on the date of transfer, plus costs directly attributable to the acquisition. Identifiable acquired assets and liabilities taken over and any contingent liabilities in a company acquisition will initially be valued at their fair value on the date of acquisition, regardless of any minority interests. The surplus constituted by the difference between the acquisition value and the fair value of the Group's share of identifiable net assets is shown as goodwill. If the acquisition value is less than the fair value of the acquired company's net assets, the difference is shown directly in the income statement. Thus the consolidated accounts only include that part of the subsidiary's equity that has been added after acquisition.

Subsidiaries are all those companies (including companies for specific purposes) where the Group is entitled to formulate financial and operational strategies in a manner that normally results from a shareholding amounting to more than half of the votes. The existence and effect of potential votes that it is presently possible to utilise or convert will be taken into account when assessing whether the Group exercises a controlling influence over another company. Subsidiaries are included in the consolidated accounts from the date that the controlling influence is transferred to the Group. They are excluded from the consolidated accounts from the date that the controlling influence ceases.

Intragroup transactions, balance sheet items and unrealised profits on transactions between Group companies are eliminated. The accounting principles for subsidiaries have, where appropriate, been amended to guarantee the consistent application of the Group's principles.

Transactions with minority shareholders
The Group applies the principle of reporting transactions with minority shareholders as transactions with third parties. Sales to minority shareholders result in profits and losses for the group and are shown in the income statement. In conjunction with purchase of minority shares where the price paid exceeds the acquired share of reported value of the subsidiary's net assets, the difference is reported as goodwill. In conjunction with sales to minority shareholders where the purchase price received differs from the reported value of the share of net assets that are sold, profit or loss arises. This profit or loss is reported in the income statement.

Translation of foreign subsidiaries and other foreign operations
Earnings and the financial positions of all Group companies (none of which have a high-inflation currency) that have a different functional currency than the report currency are converted to the Group's report currency as follows:

(a) assets and liabilities for each of the balance sheets are converted to the closing day rate;

(b) profit and loss statements for each of the subsidiaries are converted to the 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 to the rate on the date of the transaction), and

(c) all exchange rate differences arising are shown as a separate part of equity capital.

During consolidation, exchange rate differences arising as a result of the conversion of net investments in foreign operations and of borrowing and other currency instruments identified as hedging of such investments are entered in equity. When disposing of a foreign company, these exchange rate differences are shown in the profit and loss account as part of the capital gain/loss.

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

Functional currency and reporting currency
Items that are included in the financial statements for the various units in the group are valued in the currency that is used in the economic environment in which the respective company is chiefly active (functional currency). This is currently the rouble, as all subsidiaries are at present located in Russia and chiefly employ the rouble in their daily activities. SEK is used in the group accounts, which is the Swedish parent company's functional currency and reporting currency.

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 the operating result, while exchange rate differences for financial receivables and liabilities are accounted in financial items. Unrealised exchange rate gains and losses relating to operational receivables and liabilities are net accounted as other operating income/costs.

Reporting of income
Sales of gold and other minerals are 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. Revenue is thus only reported when the amount of income can be measured in a reliable way and it is likely that future economic benefits will accrue to the subsidiaries. Reporting is preceded by the semi-finished product that the subsidiaries produce, a gold ore concentrate, being delivered to a smelting works (refinery) that enriches the ore concentrate into the end product, 24 carat pure gold and a certain residual amount of silver. Sales are shown gross before royalties and other taxes directly applicable to the sale. Such taxes and charges are separately reported as operating costs. Gold sales are currently not subject to VAT in Russia. Any other income not part of the normal business is recorded as "other operating income".

Depreciation

Intangible fixed assets

These intangible fixed assets are subject to amortisation according to the "unit of production principle". The unit of production cost means that depreciation is accounted for at the same rate as production. In the case of Central Asia Gold, this means that the total expected production of gold from each license object (mine or alluvial deposit) is evaluated during the licence object's expected useful economic lifetime. After this, depreciation for each period is made corresponding to the period's proportional share of the total expected production.

Tangible fixed assets

Tangible fixed assets are systematically written off according to the particular asset's estimated economic life. If applicable, the asset's residual value is taken into account when setting the depreciable amount of the asset.

A linear depreciation method is used for the tangible fixed assets listed below. The following depreciation periods are used:

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

Write-down of non-financial assets

Assets that have an indeterminable period of use, for example goodwill, are not subject to depreciation but are reviewed annually for any write-down requirement. Assets that are subject to depreciation are reviewed for any write-down requirement when events have occurred or where there are circumstances that indicate that the reported value might not be recoverable. Write-downs are at the amount by which the reported value exceeds the recovery value. The recovery value is the higher of the asset's net sale value and its benefit value. For the estimation of write-downs, assets have been allocated at the lowest level for which there are separate identifiable cash flows (cash generating units). Assets, other than financial assets and goodwill, that have previously been written down are tested for reversal on every balance sheet date.

Current and deferred income tax

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

The current tax expense is provided on the basis of the tax regulations that were decided on the balance sheet date or which in practice were decided in the countries where 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 paid to the Tax Agency.

Deferred income taxes are recognized, using the balance sheet method, on all temporary differences arising between the taxable value of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax is not recognized if it arises as a consequence of a transaction which constitutes the first recognition of an asset or liability which is not a business acquisition and which, at the date of the transaction, neither affects the recognized or the taxable result. Deferred income tax is calculated using the tax rates (and legislation) which have been decided 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 recognized to the extent it is probable that future tax surpluses will be available, against which the temporary differences can be offset.

Deferred tax is provided 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 in the Central Asia Gold Group are principally of three different kinds:

Firstly, licences for mining permits are initially taken up at the 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 same as the acquisition value.

The next stage constitutes exploration work. Exploration work can include various activities, such as drilling of various natures, geochemical and magnetic surveys and analyses in laboratories. Exploration work can in addition include salary costs for staff who carry out the work and also administrative expenses that are directly attributable to sites that are subject to exploration work. Such exploration work is mainly done for two purposes: on the one hand, purely exploratory activities with the aim of establishing new ore bodies or, on the other hand, evaluation activities in order to better appraise the economic potential for extraction of an already established ore body in a mine or placer deposit.

Exploration expenditure relating to pure exploration is charged in the period it arises, whilst charges for evaluation work is charged until the time when the company decides, or considers it likely that a decision will be taken, to extract ores from a mining deposit. Alternatively, the assessment can refer to the prospect of selling the mining deposit at a profit in the future. From this moment the charges are capitalized as mining permits, whereafter depreciation occurs in accordance with the principles described below. In general, pure exploration work very rarely occurs in Russia today. The reason is that in almost all cases licences issued at auctions have been the subject of more or less extensive exploration operations during the Soviet period. This therefore usually means that a mineralization has already been established within the licence area and that the additional exploration initiatives are targeted at producing a better evaluation of the economic potential of the site. However, the issuing of a Russian mineral licence does not mean that in the final analysis there is any guarantee that there are economically viable ore bodies within the licence area. If the assessment of the economic potential in the exploration costs in question changes, the capitalized costs are immediately written off. All capitalized exploration expenditure is subject to impairment test if circumstances arise that indicate that a write-down needs to be carried out.

Finally, there is expenditure when work on development of a mining deposit actually starts. Such expenses are compiled for each individual mining property where it has been established there is extractable ore. The expenditure comprises the costs that are directly attributable to the mine and the mine infrastructure in question and are capitalized as mining permits. This development expenditure can also arise after production has commenced. If that is the case it is capitalized as mining permits if it is likely that they will produce additional performance gains in the mining property that result in the likelihood of prospective economic benefits. It this is not the case, these expenses are booked as production costs in the period in which they arose.

Mining permits are written off when production starts according to the "unit of production"principle. This principle is described in more detail above.

Tangible fixed assets

Tangible fixed assets are reported at the acquisition cost less depreciation. Russian legislation does not yet permit ownership of land, instead land is leased wherever applicable. 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 shown as costs. Borrowing costs are not included in the acquisition value.

Assets' residual value and useful life are reviewed on each balance sheet date and adjusted when necessary.

When an asset's carrying amount may not be recoverable, impairment loss is recognised immediately to its recoverable amount.

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

Goods in stock
Goods in stock are valued, with application of the average method, at the lowest of the acquisition value and the net realizable value on the balance sheet date. Pure gold and semi-finished product 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 sales value is comprised of the normal sales price with deductions for usual selling expenses. Central Asia Gold manufactures, via its subsidiaries, gold concentrate in various advanced levels. The gold concentrate is usually smelt by the subsidiary into Doré class gold ingots prior to delivery to external refineries (smelting works) for final enrichment to sales quality (24 carat). This gold is designated ”pure gold”in the balance sheet. Furthermore, a semi-finished product or “waste sand” that contains gold was produced during 2007 – 2008 within the Tardan mining deposit. This sand cannot be sold but is being stored pending the building 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 current assessment is that it should be possible to put a leaching plant into operation during 2010 at the earliest. Waste sand was classified as a financial fixed asset during 2007. It has been reclassified during 2008 as goods in stock. This has had no impact on the operating result. Furthermore, the group 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 headed as “raw materials and consumables”. Together ”pure gold”, ”ores and concentrates”, ”raw materials and consumables”, as well as potential advances from time to time to suppliers, constitute the balance sheet item ”goods in stock”.

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 recognised 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 recognized in the balance sheet as a liability and is allocated between a short- and a long-term component. Lease payments are allocated between interest and amortization 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. The leasing fee for operational leasing contracts is written off lineally over the leasing period.

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 precondition 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 each accounting year/period end.

Decommissioning costs
An undertaking on future decommissioning costs arises when there is an environmental impact due to a mining operation in the form of exploration, evaluation, development or ongoing production. The decommissioning costs are calculated on the basis of a decommissioning plan and the figure is reviewed regularly. Estimated decommissioning costs for the mining operation that are expected to arise when the operation is closed down are discounted at current value and reserved, and at the same time increase the acquisition value of “mining permits” on the asset side of the balance sheet. The decommissioning costs are written off over the total estimated operational period for the asset in question. In Central Asia Gold's case the size of the decommissioning costs are 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 decommissioning requirements are more extensive. If on the other hand the land in question did not have any particular alternative use when the mining operation commenced the decommissioning requirements are more modest. At present none of the different mining licences in eastern Siberia that Central Asia Gold holds are located on agricultural-, forestry- or building land.

Financial assets and liabilities
Classification
The Group classifies its financial assets in the following categories: financial assets valued at the fair value via the profit and loss account, loans receivable and accounts receivable, plus financial assets that can be sold. The classification depends on the purpose for which the financial asset was acquired. The management decides the classification of the financial assets when they are first reported.

Loans receivable and accounts receivable
Loans receivable and accounts receivable are non-derivative financial assets with fixed or fixable 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. All financial assets have been classified as financial receivables and customer receivables. Financial receivables and customer receivables are included in the financial receivables item and other receivables in the balance sheet.

Accounts receivable are reported initially at fair value and thereafter at accrued acquisition value with application of the effective interest method, less any provision for depreciation. A provision for depreciation of accounts receivables 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.

Other securities holdings
Other securities holdings are valued at acquisition value.

Financial instruments
A financial instrument or liability is shown in the balance sheet when the company becomes party to the instrument's return conditions. Customer receivables are entered once delivery has been made. A liability is entered when the counterpart has performed 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, cease or the company loses 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.

Liquid assets
Apart from cash and bank balances, short-term investments with a maturity of three months or less from the date of acquisition, which can easily be transformed into cash, are classified as liquid assets.

Trade creditors and other current liabilities
Trade creditors and other current liabilities are initially reported at fair value and thereafter at accrued acquisition value with application of the effective interest method.

Borrowing
Borrowings are initially recognised 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.

Management of financial risks
Policy for the management of financial risks
The group is exposed to a number of financial risks. These are primarily currency risk, gold price risk, credit risk and liquidity risk.

The group tries to mitigate 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 required.

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

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. The Group's currency- and gold price exposure comprises time lapses and translation exposure.

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 starting 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 means 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. In the same way as the gold price can fluctuate during the year, exchange rates can also fluctuate. Central Asia Gold's policy is in general not to secure 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.

Translation exposure
When translating the foreign group companies' net assets (equity and surplus value allocated Groupwise to subsidiaries abroad) to Swedish kronor, 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 equity in the Group can consequently both increase and decrease as a consequence of translation exposure.

Interest rate risk
The Group has both interest-bearing and non-interest-bearing loans. The interest-bearing loans refer partly to long-term rouble loans in Russian banks (Sberbank) as well as to short-term bills payable in roubles that have arisen in conjunction with dissolution of the former subsidiaries OOO TKM and OOO Mars. In addition, short-term borrowing takes place during the financial year, so-called gold loans that are taken out by the alluvial subsidiaries in foreign or Russian commercial banks and are repaid on a continuous basis during the year via the gold that is sold.

The non-interest-bearing loans refer to accounts payable, taxes, salaries and accrued expenses etc.

All short-term interest-bearing loans have fixed interest during the term of the loan. The long-term loan from Sberbank has variable interest. In that respect fluctuations in market interest rates have some effect on the Group.

Credit risk
Surplus liquidity, i.e. liquid assets which in the short term will not be invested in the operation, are preferably kept in group accounts in the West, i.e. they are not left in the Russian banking system. 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 accounts losses. The purchasers are the large, licensed gold purchasing Russian banks. Payment usually occurs within 30 days.

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 can take place in the form of borrowing or via injection of equity. For companies at an early stage, equity financing is the most common method. Since being set up the company has implemented preferential- or directed new issues on several occasions. Successful implementation of share issues are however to a large extent dependent on the market climate. Since early autumn 2008 there has been an extremely deep global recession which has resulted in a poor climate on the stock markets. In view of this, an extraordinary general meeting of Central Asia Gold decided in December 2008 to authorise the Board of Directors to implement a merger with the Russian mining company NMC. One component in the merger agreement between CAG and NMC, and an important prerequisite for the entire transaction, was that NMC's former principal owner, and now CAG's principal owner, the American entrepreneur Preston Haskell, undertook in writing to secure the CAG Group's capital requirements during 2009 up to an amount of SEK 125 million. However, the undertaking has not been secured through pledges, so if Preston Haskell's financial position was to deteriorate it could have an impact on the significance of this risk factor for Central Asia Gold AB.

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 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 75%. Solidity may be lower at a later stage. However it should never fall below 50%. As at year end 2008 the group's solidity, including minority share of equity, is at 70.7%. This is considered to be relatively satisfactory in the present situation. Potential methods for modifying the capital structure might be new share issues, further borrowing, share buyback or loan amortization.

Estimations and evaluations in the financial statements
In order to prepare accounts according to 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. A more detailed account of the areas where evaluations and estimations are of major significance is to be found in notes: 6. Taxes, 7 and 31 Intangible and tangible assets, 17. Provisions.

Segment reporting
The company's accounts are broken down into primary segments, which are geographic areas. These are defined as specific countries. The secondary segments of the company are various types of mineral. At present gold is extracted in Russia and thus segment reporting is not applied.

Share issue costs
Share issue costs are booked directly against equity.

New IFRS and interpretations
The following standards, alterations and interpretations of existing IFRS standards have not yet come into effect and have not been applied prematurely by the group.

IAS 1 (Revised), ”Presentation of financial Statements” (applies from 1 January 2009). The revised standard will prohibit presentation of items of income and expense (i.e. ”changes in equity excluding transactions with shareholders”) in the statement of changes in equity and require that ”changes in equity resulting from transactions with shareholders be presented separately from "non-shareholder" changes. Companies will be required to present all non-shareholder changes in equity in a single statement of comprehensive income with sub-totals, or in two separate statements (a separate income statement and a statement of comprehensive income). When an entity applies an accounting principle retrospectively or makes a retrospective restatement of comparative information, it must present a recalculated balance sheet at the beginning of the comparative period, in addition to the existing requirement to present balance sheets at the end of the current period and the comparative period. The Group will apply IAS 1 (Amendment) with effect from 1 January 2009. It is most likely that both a separate income statement and a statement of comprehensive income will be presented.

IAS 23 (Amendment), ”Borrowing costs” (applies from 1 January 2009). The amendment requires that companies recognise as part of the cost of the asset any borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period to complete for its intended use or sale. The alternative of immediately recognising borrowing costs will no longer be available. The group will apply IAS 23 (Amendment) from 1 January 2009.

IAS 27 (Revised), ”Consolidated and separate financial statements” (applies from 1 July 2009). Under the revised standard, the effects of all transactions with minority interests that do not result in loss of control are recognised in equity and these transactions no longer give rise to goodwill or gains and losses. The standard also states that when the disposal of a an investment in a subsidiary results in loss of control, any remaining holdings are remeasured at fair value and a gain or loss is recognised in the profit and loss account. The group will apply IAS 27 (Revised) prospectively for transactions with minority interests on or after 1 January 2010.

IAS 32 (Amendment), ”Financial instruments: Classification, and IAS 1 (Alteration), ”Presentation of financial statements” – ”Puttable financial instruments and obligations arising on liquidation” (applies from 1 January 2009). According to the amended standards, puttable financial instruments, or parts thereof, that charge the company with an obligation to hand over a proportional share of the company’s net assets to another party only in the event of liquidation shall be classified as shareholder’s equity, provided that the financial instruments have specific characteristics and satisfy certain conditions. The group will apply IAS 32 and IAS 1 (Amendment) from 1 January 2009 but this is not expected to have any impact on the consolidated financial statements.

IAS 39 (Amendment), ”Financial instruments: Recognition and measurement” - ”Eligible Hedged Items” (applies from 1 July 2009). The amendment clarifies how existing hedge-accounting principles are to be applied in two specific situations. It clarifies when inflation can be identified as the hedged risk in a financial instrument and how reporting should take place when using options as hedging instrument. The group will apply IAS 39 (Amendment) from 1 January 2009 but this is not expected to have any impact on the consolidated financial statements.

IFRS 2 (Amendment), ”Share-based payments” (applies from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be considered when the fair value per grant date is fixed for transactions with employees and others providing similar services. That is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group will apply IFRS 2 (Amendment) from 1 January 2009 but this is not expected to have any impact on the consolidated financial standards.

IFRS 3 (Revised), ”Business Combinations” (applies from 1 July 2009). The revised standard continues to prescribe application of the acquisition method for business combinations, but with a few significant changes. For example, all consideration paid for an investment in a business is measured at fair value on the acquisition date, while subsequent contingent consideration is recognised as a liability to be adjusted in the income statement. Minority interests in the business acquired can be measured either at fair vale or at the minority interest’s proportionate share of the acquiree’s net identifiable assets. All acquisition-related costs are expensed. The group will apply IFRS 3 (Revised) prospectively for all company acquisitions on or after 1 January 2010.

IFRS 8, Operating segments (applies from 1 January 2009). IFRS 8 replaces IAS 14 and adapts segment reporting to the requirements in the US standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires that segment information is reported from the perspective of the management, so that it is presented the same as for internal reporting. The Group will apply IFRS 8 from 1 January 2009. The management will continue to analyze any effect the standard will have, however, it seems likely that both the number of segments for which information will be submitted and the way in which reporting takes place for the segments, will change in a way that is compatible with the internal reports that are submitted to the chief operating decision maker.

IFRIC 12 (Service concession arrangements), *IFRIC 13 (Customer loyalty programmes)*, *IFRIC 14 (IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction)* plus *IFRIC 15 (Agreements for construction of real estates)* are not relevant to the Group’s activities.

IFRIC 16 ”Hedges of a net investment in a foreign operation” (applies from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency, not presentation currency, and hedging instruments may be held anywhere in the Company. The requirements of IAS 21, ”The effects of changes in foreign exchange rates”, do apply to the hedged item. The group will apply IFRIC 16 from 1 January 2009. It is not expected to have a material impact on the Group’s financial statements.

IFRIC 17, ”Distributions of Non-cash Assets to Owners” (applies for accounting periods beginning on or after 1 July 2009). IFRIC 17 clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity, and that this payable should be measured at the fair value of the net asset to be distributed. When an entity settles the dividend payable, it should recognize the difference between the dividend paid and the carrying amount of the net asset distributed in profit or loss. The result of the revaluation shall be reported in the income statement. IFRIC 17 also clarifies that IFRS 5 Non-current assets held for sale and discontinued operations should be applied for non-current assets classified as held for distribution to owners. The Group will apply IFRIC 17 to distributions of non-cash assets, as well as pro rata distributions of non-cash assets, prospectively from January 1, 2010.

IFRIC 18 ”Transfers of Assets from Customers” (applies for transfers of property, plant and equipment or cash from a customer, received on or after July 1, 2009). IFRIC 18 clarifies the requirements for agreements in which an entity receives an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation clarifies e.g. the circumstances in which the definition of an asset is met, the recognition of the asset and the measurement of its cost on initial recognition, and also the recognition of revenue. The interpretation is not expected to have any impact on the group’s financial statements as the Group does not have any agreements of this type with its customers.

EU endorsement status
At 31 December 2008, none of the standards, amendments or interpretations described above had been endorsed by the EU, with the exception of IAS 1, IAS 23, IAS 32, IFRS 2, IFRS 8, IFRIC 13 and IFRIC 14.

Notes

Note 1 Other external expenses

	Group 2008	Group 2007	Parent company 2008	Parent company 2007
Audit fees				
Audit assignments	2,004	1,465	1,498	813
Other assignments	–	–	–	–
Total audit fees	**2,004**	**1,465**	**1,498**	**813**
Other external expenses				
Fuel	55,958	29,913		
Materials	9,999	7,077		
Taxes other than corporate income tax	9150	8,122		
Other	60,368	68,475	6,650	5,660
Total other external expenses	**137,479**	**115,052**	**8148**	**6,473**

Note 2 Personnel

	Total 2008	of which Women	Total 2007	of which Women
Average number of employees				
Parent company in Sweden, including the representative office in Moscow	7	2	6	2
Subsidiaries in Russia	984	103	1 193	100
Total for the group	**991**	**105**	**1 199**	**102**
Number of employees at year-end				
Parent company in Sweden, including the representative office in Moscow	6	2	8	2
Subsidiaries in Russia	892	92	1,280	115
Total for the group	**898**	**94**	**1,288**	**117**

	Group 2008	Group 2007	Parent company 2008	Parent company 2007
Salaries and remuneration in Sweden				
Board and CEO	1,555	1,906	1,555	1,906
Other employees, including representative office in Moscow	2,196	1,646	2,196	1,646
	3,751	**3,552**	**3,751**	**3,552**
Salaries and remuneration in Russia				
Board and CEO	–	317	–	–
Other employees	69,074	77,752	–	–
Other salary-related expenses	3,029	7,943	–	–
	72,104	**86,012**		
Total salaries and remuneration	**75,855**	**89,564**	**3,751**	**3,552**
Social security expenses				
Social security expenses in Sweden	745	983	745	983
Social security expenses in Russia	16,327	15,667	–	–
	17,072	**16,650**	**745**	**983**
Pension expenses	308	51	308	51
Total salaries, remuneration, social security expenses and pension expenses	**93,234**	**106,265**	**4,804**	**4,586**

** During 2008, two employees in the parent company (but not the CEO) had an ITP solution, with a premium for the year amounting to a total of SEK 70 thousand (51 thousand). For the CEO, a pension premium of SEK 225 thousand was paid for 2008 (0).*

	Group 2008	Group 2007	Parent company 2008	Parent company 2007
Group – Board of Directors				
Women	–	–	–	0
Men	7	8	7	8
Group – Management and CEO				
Women	2	4	2	1
Men	4	15	4	2

Remuneration and other benefits during the year - specification for board members and senior executives

	Board fee/ basic salary	Variable remuneration	Other benefits	Pension benefits
Michail Malyarenko, Chairman of the board *	–			
Alexander Merko, member	–			
Alexander Gerasimov, member *	–			
Paal Hveem, member	–			
Örjan Berner, member	100			
Patric Perenius, member	–			
Peter Geijerman, member	–			
Torbjörn Ranta, member	–			
Group management				
Torbjörn Ranta, Managing Director	1,455			238
Others in group management (five people in Stockholm and Moscow)	2,196			70

* *During 2007 and 2008 Michail Malyarenko and Alexander Gerasimov were employed by the management company OOO Malca, which provided certain management services to the Central Asia Gold group. During the financial year, a total of SEK 3,029 thousand was paid to OOO Malca (SEK 7,943 thousand).*

Group

Fees are paid to the board members as resolved at the AGM. No other remuneration is paid by the company. During 2008, a total of SEK 100 thousand was paid in fees to the independent board members (SEK 100 thousand). Other members waived fixed fees of SEK 20 thousand per member, for a total of SEK 140 thousand. During the preceding financial year, they received SEK 20 thousand per member.

Managing Director of the parent company

Remuneration to the MD is in the form of a fixed monthly salary. The employment contract specifies a three months' mutual notice period. In 2008, the Managing Director received a fixed annual salary of SEK 1,455 thousand (SEK 1,680 thousand). In addition, the Company paid him a pension premium of SEK 225 thousand for the MD (0), which reduced his salary by the same extent. There are no contractual arrangements about severance pay or pension commitments for the MD. As of the 2006 financial year, the MD is also entitled to bonus payments if found justified by the board. No bonus has being paid out for the 2008 financial year (0).

Group management

Group management refers to 4 people in the representative office in Moscow in addition to the parent company's staff in Sweden. Remuneration to these six senior executives consisted in 2008 of a fixed monthly salary. None of these senior executives has any severance pay or pension commitments. Remuneration to group management includes a salary of SEK 190 thousand to Alexander Merko in his capacity as Head of the representative office in Moscow (SEK 183 thousand).

Note 3 Depreciation according to plan and write-downs of non-current assets

	Group 2008	Group 2007	Parent company 2008	Parent company 2007
Depreciation on buildings	-5,660	-3,689	–	–
Depreciation on machinery, equipment, and other technical plant.	-16,889	-13,796	-5	-5
Depreciation of intangible non-current assets.	-8,348	-18,033	–	0
Total depreciation	**-30,897**	**-35,518**	**-5**	**-5**
Write-down of non-current assets in OOO Artelj Lena	-33,913	–	–	–
Write-down of non-current assets in OOO Artelj Tyva	-10,120	–	–	–
Total write-downs	**-44,033**	–	–	–

Specification of write-downs at the two alluvial subsidiaries 2008

	Artelj Lena	Artelj Tyva	Total
Intangible non-current assets	-13,871	–	-13,871
Property, plant and equipment	-3,407	-5,182	-8,588
Financial assets	-12,279	-2,647	-14,926
Other current assets	-3,866	-2,781	-6,647
	-33,423	**-10,610**	**-44,033**

Write-downs were made at OOO Artelj Lena in the half-year accounts in 2008 and at OOO Artelj Tyva in the third quarter accounts in the same year. The background to this was that in 2008 both companies produced less in volume terms than set in the budget. In Artelj Lena's case this was evident somewhat earlier than at Artelj Tyva. At the same time, production costs increased strongly during the first half of 2008 in Russia, particularly rising fuel prices which form a substantial proportion of costs in the alluvial subsidiaries, during the first half of 2008 when the international price of crude oil reached USD 150 per barrel. An important factor in the write-down decision at each point in time was the trend of the Russian rouble. The rouble reached its highest real rate against the USD during the summer of 2008 when the nominal exchange rate reached a level just above 23 RUR/USD. The collective assessment at these points in time was that the trend in volumes and costs at that time justified a write-down. The problem was sectoral. The total Russian alluvial gold production during the financial year fell by around 10% from 60 tonnes in 2007 to approx 55 tonnes in 2008. The remaining group-wide values in the two subsidiaries was estimated at the time of writing down to be equivalent to the long-term value in use. These values were established by means of discounted cash-flow models plus taking into account group-wide alternative costs. Because of the latter, a factor taken into account was that on these two occasions the CAG Group had significant other production and prospecting activities not far from the two subsidiaries mentioned, namely in the two Russian regions of Irkutsk and Tyva. At the point in time when this Annual Report was issued, the external conditions for Russian gold production in general, and for alluvial production in particular, appear considerably more favourable than in 2008. The price of gold is higher, and the the rouble's exchange rate and fuel prices are much lower. It has however been deemed to be prudent not to take a stance about any adjustment to the write-downs before the production season at the alluvial companies has got under way. A breakdown of the total write-downs is given above.

Note 4 Financial income

	Group 2008	Group 2007	Parent company 2008	Parent company 2007
Interest income from group companies	–	–	8,066	3,184
Other interest income	296	6,132	296	523
Exchange rate differences	–	3,387	20,760	–
Other financial income	409	703	–	–
Capital gain from sale of subsidiary	–	25,968	13,519	–
Total financial income	**705**	**36,190**	**42,641**	**3,704**

In the group results, the sale of a subsidiary in 2007 relates to the sale of 25% of the shares in Kopylovskoye AB. The accumulated result has been reduced by an amount equivalent to SEK 25,968 thousand. However, equity capital has not been affected by this transaction. In the results, the sale of a subsidiary in the parent company in 2008 relates to the sale of the subsidiary OOO Kavkaz to Kopylovskoye AB.

Note 5 Financial expenses

	Group 2008	Group 2007	Parent company 2008	Parent company 2007
Interest expenses	-8,179	-858	-7	-3
Exchange rate differences	-592	-1,089	-287	-1,089
Write-downs of shares and participating interests	–	–	-49,610	-2,587
Capital loss from sale of subsidiary	-13,453	-16	-8,727	-16
Total financial expenses	**-22,224**	**-1,963**	**-58,631**	**-3,695**

In the results, the sale of a subsidiary in 2008 relates primarily to the sale of 12.5% of the shares in Kopylovskoye AB. The sales total was SEK 10,000 thousand gross, resulting in a group-wide capital loss of SEK 11,831 thousand. The remaining group-wide loss from the sale of subsidiaries relates to the winding up of two companies, OOO TKM and OOO Mars. The write-down of shares and participating interests in 2008 in the parent company of SEK 49,610 thousand relates to write-downs at OOO Artelj Tyva and OOO Artelj Lena. The result from the sale of the subsidiary in the parent company in 2008 concerns the sale of 12.5% of Kopylovskoye AB during the fourth quarter of 2008.

Note 6 Tax on profit/loss for the year

	Group 2008	Group 2007	Parent company 2008	Parent company 2007
Current tax	-122	-681	–	–
Deferred tax	5,897	-10,988	–	–
	5,775	-11,669	–	–
Connection between tax expense and reported profit/loss				
Pre-tax profit/loss	-96,960	8,979	-28,947	-11,065
Tax according to applicable tax rate	23,270	-2,155	8,105	3,098
Tax effect of expenses that are non-deductible for tax purposes	2,123	19	-23	–
Expenditure is booked directly against equity	2,253	3,542	2,253	3,542
Difference between the group's tax rate and the individual companies' tax rates	3,878	443		
Tax effect of loss carry-forwards for which deferred taxes recoverable are not reported:	-25,749	-13,517	-10,335	-6,640
	5,775	**11,669**	–	–

The applicable tax rate for the parent company is 28%. The applicable tax rate for the group (24%) is the weighted value of the tax rates in the various countries and the pre-tax profit/loss.

	Group 2008-12-31	Group 2007-12-31
Deferred tax recoverable relating to capitalised deficit		
Incoming deferred tax recoverable	20,376	9,862
Change in the deferred tax recoverable	-14,927	10,514
Closing deferred tax recoverable	5,449	20,376
Total deferred tax recoverable	**5,449**	**20,376**

Currently in the CAG group, tax-related loss carry-forwards in the parent company are not carried as deferred tax recoverable, on the grounds that bearing in mind the managerial character of the parent company, it is uncertain whether such deductions can be utilised. At the subsidiaries level in Russia, deferred tax assets deemed to be efficiently utilisable are reported in the external accounts. The assessments at the level of subsidiaries is often in harmony with the assessments of the Russian tax authorities. The change in these assessed utilisable deferred tax assets are carried as tax items in the group income statement in each period.

Deferred tax liabilities with regard to temporary differences		
Opening provision for deferred tax on the acquired mining licences	28,417	10,977
Change in provision for deferred tax on the acquired mining licences	-21,211	17,440
Closing provision for deferred tax on the acquired mining licences	**7,206**	**28,417**
Opening provision for deferred tax on the acquired non-current assets	6,552	–
Change in provision for deferred tax on the acquired non-current assets	1,383	6,552
Closing provision for deferred tax on the acquired non-current assets	**7,935**	**6,552**
Opening deferred tax liability on capitalised work for own account.	15,347	9,862
Change in deferred tax liability on capitalised work for own account.	-874	5,485
Closing deferred tax liability on capitalised work for own account.	**14,473**	**15,347**
Total deferred tax liability	**29,614**	**50,316**

Deferred tax liability is calculated on the basis of the group's capitalised work for own account. Provision is made at 24% of the capitalised work for own account. The change in the provision for deferred tax on the acquired mining licences concerns deferred tax relating to the original acquisition of Kopylovskoye AB. The amount is included in the net effect (SEK -15,473 thousand) of the distributed subsidiary in the group's profit/loss brought forward. On the acquisition of mining licences in Russia a provision is made at group level concerning deferred tax for the acquired licence. The provision is equivalent to 24% of the group acquisition value.

Note 7 Mining permits and capitalised exploration costs

	Group 2008-12-31	Group 2007-12-31	Parent company 2008-12-31	Parent company 2007-12-31
Opening balance	233,972	158,380	377	5,540
Adjusted acquisition analysis	–	3,903	–	-5,531
Received net through the acquisition of companies and permits	–	28,542	–	368
Translation difference	392	-108	–	–
Capitalised exploration costs	53,745	43,255	15	–
Dividend of subsidiary	-141,662	–	–	–
Closing accumulated acquisition value	**146,447**	**233,972**	**392**	**377**
Opening balance	-17,258	-2,404	–	–
Depreciation for the year	-8,348	-14,854	–	–
Closing accumulated depreciation	**-25,606**	**-17,258**	–	–
Opening balance	-3,179			
The year's write-down	-13,871	-3,179		
Closing accumulated write-downs	**-17,050**	**-3,179**		
Closing residual value according to plan	**103,791**	**213,535**	**392**	**377**
Externally acquired capitalised amount	43,091	142,617	392	377
Internally accrued capitalised amount	60,700	70,918	–	–

The year's write-down of licences by SEK 13,871 thousand relates to the subsidiary OOO Artelj Lena (see also note 3). The dividend of the subsidiary of SEK 141,662 thousand relates to the group-wide effect of the dividend of the sub-group Kopylovskoye AB.

By externally acquired capitalised amounts is meant mining rights arising from the acquisition of companies or from individual licences. The amount also includes the effects of deferred tax from business combinations. Internally accrued capitalised amounts relate to the capitalisation of exploration work carried out by fully-owned subsidiaries.

The intangible assets are a significant proportion of the total bulk of assets in the CAG group. The presence of the intangible assets in the balance sheet is based on assuming that the value of the mining permits is sufficient. In order to check this, what are called impairment tests of these assets are regularly carried out. The tests are sensitive to the assumptions made in the valuation models.

Notes 31 and 25 set out the assumptions made in the most recently carried out impairment tests and also the sensitivity of these assumptions.

Note 8 Buildings and land

	Group 2008-12-31	Group 2007-12-31
Opening balance	71,097	11,746
Purchases	–	57,614
Completion of ongoing construction work	11,260	–
Acquisition values from acquired subsidiaries	–	1,895
Disposal sales	-44	-120
Dividend of subsidiary	-35,547	–
Translation difference	465	-38
Closing accumulated acquisition values	**47,232**	**71,097**
Opening balance	-5,456	-729
Accumulated depreciation from acquired subsidiaries	–	-1,117
Disposal sales	33	-20
Dividend of subsidiary	3,609	–
Translation difference	297	99
Depreciation for the financial year	-5,660	-3,689
Closing accumulated depreciation	**-7,177**	**-5,456**
Opening balance	–	–
The year's write-down	-1,869	–
Closing accumulated write-downs	**-1,869**	–
Closing residual value according to plan	**38,186**	**65,641**

Note 9 Machinery, equipment and other technical plant

	Group 2008-12-31	Group 2007-12-31	Parent company 2008-12-31	Parent company 2007-12-31
Opening balance	136,149	41,982	25	25
Purchases	937	53,036	–	–
Acquisition values from acquired subsidiaries	–	37,428	–	–
Dividend of subsidiary	-22,150		–	
Disposal sales	-20,248	-435	–	–
Translation difference	1,410	212	–	–
IFRS reclassification of non-current assets.	–	3,926	–	–
Closing accumulated acquisition values	**96,097**	**136,149**	**25**	**25**
Opening balance	-37,778	-6,752	-18	-13
Accumulated depreciation from acquired subsidiaries	–	-17,534	–	–
Disposal sales	8,157	309	–	–
Translation difference	-279	-5	–	–
Depreciation for the year	-16,889	-13,796	-5	-5
Closing accumulated depreciation	**-46,789**	**-37,778**	**-23**	**-18**
Opening balance				
The year's write-downs	-6,720	–	–	–
Closing accumulated write-downs	**-6,720**	–	–	–
Closing residual value according to plan	**42,589**	**98,371**	**2**	**7**

Note 10 Construction in progress

	Group 2008-12-31	Group 2007-12-31
Opening balance	11,870	36,769
Completion of ongoing construction work	-11,260	-30,694
Purchases/payments during the year	4,664	5,601
Acquisition values from acquired subsidiaries	–	145
Translation difference	132	49
Closing book value	**5,406**	**11,870**

Construction work in progress at the end of 2008 is represented by an as yet not fully completed garage, as well as three residential buildings not yet fully ready for use at the Tardan deposit in Tyva.

Note 11 Participating interests in group companies

	Parent company 2008-12-31	Parent company 2007-12-31
Opening balance	411,444	167,319
Establishing of subsidiary	4,111	100
Sale/dividend of Kopylovskoye AB	-112,269	–
Shares obtained by an offset issue including acquisition costs	–	112,170
Write-down of shares and participating interests *)	-49,610	-2,587
Equity contributions provided	736	134,443
Closing accumulated acquisition values	**254,412**	**411,445**
Closing book value	**254,412**	**411,445**

The year's investments in subsidiaries relates to OOO Tardan Gold and amounts to SEK 736 thousand.

Note 12 Shares and participating interests in subsidiary companies

Group	Co. ID	Regd office	Equity and share of votes
OOO Tardan Gold	1041700563519	Kyzyl	100%
OOO GRK Tomano	1030300150126	Ulan-Ude	100%
OOO Artelj Tyva	1701002590	Kyzyl	100%
OOO Artelj Lena	3808154407	Irkutsk	94.7%
OOO Karabel-Dyr	1701042427	Kyzyl	100%
OOO Uzhunzhul	1901081141	Abakan	100%

Parent company	Co. ID	Regd office	Equity and share of votes	Carrying amount
OOO Tardan Gold	1041700563519	Kyzyl	100%	250,301
OOO GRK Tomano	1030300150126	Ulan-Ude	100%	–
OOO Artelj Tyva	1701002590	Kyzyl	0.4%	–
OOO Artelj Lena	3808154407	Irkutsk	0.2%	–
OOO Karabel-Dyr	1701042427	Kyzyl	100%	4,111
OOO Uzhunzhul	1901081141	Abakan	1%	–
				254,412

Note 13 Other long-term receivables

In 2007 the stock of waste sand, a semi-finished form of gold, was classified as a financial non-current asset. Once a leaching plant is ready, this semi-finished product can be turned into pure gold. During 2008 the waste sand was reclassified as a component in the warehouse. Consequently there has been a reclassification of the corresponding item in 2007. See note 15 below. The reclassification has not had any impact on the results.

Note 14 Loans to subsidiaries

	Parent company 2008-12-31	Parent company 2007-12-31
Opening balance	53,376	44,856
Loans during the year	31,869	10,644
Accrued interest	8,066	912
Translation difference	19,856	-3,036
Closing receivables	**113,167**	**53,376**
Closing book value	**113,167**	**53,376**

Note 15 Goods in stock

	Group 2008-12-31	Group 2007-12-31
Raw materials and consumables	19,285	25,200
Ores and concentrates*	57,100	28,658
Pure gold	153	1,171
Other stock	–	477
Total	**76,538**	**55,506**

The write-down for the year of warehouse stocks was SEK 955 thousand (SEK 2,801 thousand).

* *In 2007 the stock of waste sand, a semi-finished form of gold, was classified as a financial non-current asset. Once a leaching plant is ready, this semi-finished product can be turned into pure gold. During 2008 the waste sand was reclassified as a component in the warehouse. Consequently there has been a reclassification of the corresponding item in 2007. See note 13 below. The reclassification has not had any impact on the results.*

Note 16 Current receivables

	Group 2008-12-31	Group 2007-12-31	Parent company 2008-12-31	Parent company 2007-12-31
Prepaid expenses	4,837	15,731	374	106
Total prepaid expenses	**4,837**	**15,731**	**374**	**106**
Other current receivables	18,061	16,142	13,187	158
VAT receivable	29,587	32,889	–	–
Total other current receivables	**47,647**	**49,031**	**13,187**	**158**

Note 17 Profit/loss and equity per share

a) Before dilution

The profit/loss per share before dilution is 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 2008	Group 2007
Profit/loss attributable to the parent company's shareholders	-86,146	-5,766
Weighted average number of ordinary shares outstanding (thousands)	**463,300**	**405,678**
Earnings per share, SEK	-0.186	-0.014

a) 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 incentive options outstanding at the 2008 year-end. The options were issued pursuant to a resolution at the AGM in the summer of 2007. In all, SEK 14.5 million options were issued. The premiums paid were in line with market prices. The exercise price was set at SEK 2.25 per option equivalent to one share. The term is up to and including July 2009. The first recalculation was made following the new share issue in June 2008 and a second recalculation took place following the distribution by Kopylovskoye AB in December 2008. At the 2008 year-end the recalculated subscription price was SEK 1.76 per option, equivalent to one share. The number of options has also been recalculated using the factor 1.28, so the total number of options is now 18.56 million. As the stock market price both on average during 2008 and at the 2008 year-end was substantially lower than the subscription price, there is no dilution as a consequence of these outstanding options.

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

At the 2007 and 2008 year-ends the number of shares outstanding was as follows: Quotient value per share at each year-end was equivalent to SEK 0.20 per share. At an Extraordinary General Meeting on 22 December 2008 a decision was made to reduce the quotient value per share to SEK 0.05. At the 2008 year-end this change had not yet been registered with Bolagsverket (the Swedish Companies Registration Office). The share capital limits at the 2008 year-end were not less than SEK 46,000 thousand and not more than SEK 184,000 thousand. At the EGM on 22 December 2008 it was resolved to increase the share capital limits to not less than SEK 150,000 thousand and not more than SEK 600,000 thousand. At the 2008 year-end this change had not yet been registered with Bolagsverket.

Number of shares	Group 2008	Group 2007
Opening balance	412,210,070	366,196,923
New share issues during the period	118,414,930	46,013,147
Number of shares outstanding at each year-end	**530,625,000**	**412,210,070**
Quotient value in SEK (0.20 per share).	**106,125,000**	**82,442,014**

d) Equity per share

	Group 2008	Group 2007
Share capital	106,125	82,442
Additional paid-in capital	272,407	332,007
Other reserves	-4,669	-8,886
Retained earnings, including profit/loss for the year	-121,068	-13,604
Total equity attributable to the parent company's shareholders	**252,795**	**391,959**
Equity per share, SEK	**0.476**	**0.951**

Note 18 Provisions

	Group 2008-12-31	Group 2007-12-31
Opening provision for restoration costs	1,226	654
Change of provisions for restoration costs	109	572
Closing provisions for restoration costs	**1,335**	**1,226**
Total provisions	**1,335**	**1,226**
Allocation of provisions for restoration costs in subsidiaries		
OOO Tardan Gold	169	153
OOO Artelj Lena	538	505
OOO Artelj Tyva	628	569
Total provisions for restoration costs	**1,335**	**1,226**

Of the total provisions of SEK 1,335 thousand, an estimated SEK 1,166 thousand (Artelj Lena and Artelj Tyva) will be paid out within 5 years, and the rest (Tardan Gold) at the end of the mining licence period, namely 2025.

The size of the restoration costs is in each individual case largely dependent on the type of ground on which the mining operation in question is located. None of CAG's productive units has its facilities located on ground that is sensitive from an environmental or other perspective. Assessments of future restoration costs have been mainly based on the assumptions written into each licence agreement. As the amounts are modest, and the date for commencing restoration work in Tardan is well into the future, the sensitivity of the undertakings is not currently that large.

Note 19 Other non-current liabilities

	Group 2008-12-31	Group 2007-12-31
Leasing liabilities		
Opening leasing liabilities	5,847	–
Change in leasing liabilities	-2,433	5,847
Closing leasing liabilities	**3,414**	**5,847**
Liabilities to credit institutions	8,182	27,512
Total liabilities to credit institutions	**8,182**	**27,512**
Total other non-current liabilities	**11,596**	**33,359**

Closing leasing liabilities relate to financial leasing.

Liabilities to credit institutions of SEK 8,182 thousand relate to loans to OOO Tardan Gold by the Russian bank Sberbank. The loan is denominated in roubles. The rate of interest is currently 15.5%. Amortisation of this loan will commence starting in February 2010 in 37 equal consecutive monthly payments.

Note 20 Accrued expenses and deferred income

	Group 2008-12-31	Group 2007-12-31	Parent company 2008-12-31	Parent company 2007-12-31
Accrued fees	1,033	1,151	1,033	1,151
Accrued personnel expenses	562	485	562	485
Other accrued expenses	1,318	4,075	240	13
	2,913	**5,711**	**1,835**	**1,649**

Note 21 Acquisition of subsidiaries

	Group 2008-12-31	Group 2007-12-31
Intangible assets	–	5,627
Property, plant and equipment	–	20,837
Financial assets	–	10,889
Goods in stock	–	24,289
Current receivables	–	24,827
Cash and cash equivalents	–	2,238
Deferred tax	–	–
Current liabilities	–	-27,161
Non-current liabilities	–	-481
Deduction for minority shares	–	-3,240
Preliminary purchase price of mining licence	–	60,145
Goodwill arisen	–	2,320
Less advance purchase price paid 2006	–	-18,681
Effect on the group's cash and cash equivalents	–	**39,226**

Acquisition of a subsidiary in 2007 relates to OOO Artelj Lena.

Note 22 Cash and cash equivalents

Cash and cash equivalents of SEK 34,230 thousand (SEK 69,843 thousand) relates to group cash and bank balances. In the parent company, cash and cash equivalents of SEK 30,456 thousand (SEK 8,718 thousand) relates similarly to cash and bank balances. An exchange gain of SEK 72 thousand (SEK 366 thousand) refers to exchange gains in cash and cash equivalents.

Note 23 Adjustments for items not included in cash flow

	Group 2008-12-31	Group 2007-12-31
Depreciation on buildings	-5,660	-3,689
Depreciation on machinery, equipment and other technical plant	-16,889	-13,796
Depreciation on intangible assets	-8,348	-18,033
Write-downs of tangible and intangible assets	-44,033	–
Total depreciation and write-downs	**-74,930**	**-35,518**

Note 24 Acquisition of other non-current assets

	Group 2008-12-31	Group 2007-12-31
Investments in buildings for the year	–	-34,019
Investments in machinery, equipment and other technical plant for the year	-937	-49,923
Investment in construction in progress for the year	-4,664	-5,601
	-5,601	**-89,543**

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, accounts receivable and loans receivable, other holdings of securities and other financial liabilities.

Financial assets are valued at fair value via the income statement.

The group's financial assets valued at fair value via the income statement relate to cash and cash equivalents. The financial assets are reported in the balance sheet and are valued at the closing day rate.

	2008 12 31 Fair value	2008 12 31 Carrying amount	2007 12 31 Fair value	2007 12 31 Carrying amount
Cash and cash equivalents in SEK thousands	29,883	29,883	50,613	50,613
Cash and cash equivalents in USD	573	573	2,821	2,821
Cash and cash equivalents in RUR	3,774	3,774	16,409	16,409
Total cash and cash equivalents	**34,230**	**34,230**	**69,843**	**69,843**

Accounts receivable and loans receivable

The group's holdings of loans receivable relate to loans to external parties. The loans to external parties are valued at the amortised cost. The loan's term and interest rate are given in the table below.

Accounts receivable

The group and the parent company have reported a loss of SEK 0 (SEK 0) for write-downs of its accounts receivable during 2008. Provision for uncertain accounts receivable amounts to SEK 0 (SEK 0) as at the end of December 2008.

	2008 12 31 Fair value	2008 12 31 Carrying amount	2008 12 31 Maximum credit risk	2007 12 31 Fair value	2007 12 31 Carrying amount	2007 12 31 Maximum credit risk
Accounts receivable	776	776	776	11,227	11,227	11,227
Other current receivables	2,558	2,558	2,558	4,704	4,704	4,704
Cash and bank holdings	34,230	34,230	34,230	69,843	69,843	69,843
Total customer and other current receivables	37,564	37,564	37,564	85,774	85,774	85,774

Interest rate risks

The interest rate risk for loans receivable is illustrated below:

Interest rate renegotiation/Interest due date:	**< 1 year from reporting date**	**> 1 year but < 5 years from reporting date**
Long-term loans to external parties		
Interest on long-term loans to external parties		
Short-term loans to external parties	2,558	–
Interest on short-term loans to external parties	10%	–

The loan of SEK 2,558 SEK relates to a loan granted to the Russian company Zabaikalgeoresurs in conjunction with the acquisition of OOO Kopylovsky. The loan is denominated in roubles and fell due in January 2009.

Other securities holdings

Other securities holdings relate to small shareholdings into Russian commercial banks in the Tyva region owned by the subsidiary OOO Artelj Tyva. This holding was brought into the group on the acquisition of OOO Artelj Tyva in 2005.

	2008 12 31 Fair value	2008 12 31 Carrying amount	2007 12 31 Fair value	2007 12 31 Carrying amount
Other securities holdings	383	383	386	386
Total of other securities holdings	**383**	**383**	**386**	**386**

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.

	2008 12 31 Fair value	2008 12 31 Carrying amount	2007 12 31 Fair value	2007 12 31 Carrying amount
Accounts payable to suppliers	10,615	10,615	42,511	42,511
Other current liabilities	20,401	20,401	9,244	9,244
Other non-current liabilities	8,182	8,182	27,512	27,512
Total other financial liabilities	**39,198**	**39,198**	**79,267**	**79,267**

Maturity structure of other financial liabilities as at 31 December 2008

> 1 year from reporting date	> 1 year but < 5 years from reporting date	> More than 5 years
10,615	–	–
20,401	–	–
	8,182	–
31,016	**8,182**	

Sensitivity analysis – Operating profit/loss

The table below presents an estimate of the impact on the profit/loss of changes in market conditions for one year ahead, based on the reporting date conditions on 31 December 2008. The estimate is based on an assumed production volume of 800 kg pure gold during 2009, while the production target for 2009 is currently 800 – 1,000 kg pure gold. The reporting date conditions for 2009 include a gold price of 870 USD/oz and a USD/SEK exchange rate of 7.88 and a SEK/RUR rate of 3.79.

(all amounts in SEK thousands)	Effect on operating profit/loss
Change in price of gold in USD by +10%, other things being equal	16,574
Change in price of gold in USD by -10%, other things being equal	-16,574
Strengthening of USD against SEK and RUR by +10%, other things being equal	16,574
Weakening of USD against SEK and RUR by +10%, other things being equal	-16,574
Production volume increase of 10% to 880 kg, other things being equal	12,115
Production volume decrease of 10% to 720 kg, other things being equal	-12,115
Rouble weakens by 10% against SEK, other things being equal	17,000
Rouble strengthens by 10% against SEK, other things being equal *	-21,170

Sensitivity analysis – Equity

The table below presents an estimate of the effects on group equity in 2009, given the reporting date conditions set out above. Group equity is affected by the profit/loss figures, the tax effect in Russia, and the currency effects on the group's assets and liabilities.

(all amounts in SEK thousands)	Effect on equity
Change in price of gold in USD by +10%, other things being equal	13,259
Change in price of gold in USD by -10%, other things being equal	-13,259
Strengthening of USD against SEK and RUR by +10%, other things being equal	13,259
Weakening of USD against SEK and RUR by -10%, other things being equal	-13,259
Production volume increase of 10% to 880 kg, other things being equal	8,800
Production volume decrease of 10% to 720 kg, other things being equal	-8,800
Rouble weakens by 10% against SEK, other things being equal	3,400
Rouble strengthens by 10% against SEK, other things being equal *	-6,736

* *Calculating the effect of a weakening of the rouble against SEK is relatively complex. In principle, any weakening of the rouble should, other things being equal, have a positive affect on the group operating profit/loss, as the largest proportion by far of group costs are in RUR. The effect of a weaker rouble then becomes positive at the operating profit/loss level. The effect on equity is then on the one hand positive from the impact on the profit/loss, but on other hand negative when converting the subsidiaries' net assets. Given the subsidiaries' balance sheets structure at the 2008 year-end, the net effect of a weaker rouble is even so calculated to be positive for group equity. The opposite rationale applies with a stronger rouble.*

Sensitivity analysis of an impairment test

An impairment test was carried out on the group's productive gold assets at the 2008 year-end. Most of the tested values came from the Tardan deposit. For this purpose, a discounted cash flow model has been used extending over a 10-year period. A number of variables are simulated in the model. Among the more important quantities are the price of gold, the yield required and the stripping ratio. The base assumption about the price of gold during the period is 850 USD/oz, the yield required is 10% per year, and the stripping ratio is 5. A number of other assumptions are also important. The result of the base assumptions is that no write-down is needed for the Tardan deposit as at the 2008 year-end. How the tested value is affected in percentage terms of a 10% change up or down in the three quantities mentioned above is illustrated below.

Change in price of gold +/- 10%	Change in tested value: +/- 32%
Change in yield required +/- 10%	Change in tested value: +/- 7%
Change in stripping ratio +/- 10%	Change in tested value: +/- 16%

The impairment test's impact on group book values

In the light of the above, the impairment test at the 2008 year-end should not give rise to any further need to write down group assets. Furthermore, the discussion above demonstrates that a sensitivity analysis is an extremely complex issue, as there is always a covariance in the business environment factors. For example, it is unlikely that the price of gold will fall substantially without at the same time in the medium term influencing the level of group operating costs. However, the most recent impairment test shows, other things being equal, that a fall in the price of gold in dollar terms over a lengthy period of time of more than 10% (below 765 USD/oz) might give rise to the need for an impairment test on group book values.

Note 26 Transactions with related parties

Security services

The various subsidiaries in Russia currently purchase some security and guard services from OOO "Ochrannaya Firma Shtjit". Michail Malyarenko owns 60% of this company. These services are charged for at market price. During 2008, the subsidiaries paid a total of SEK 3,341 thousand for such services (SEK 5,312 thousand).

Rental of premises

Some members of the group's corporate management and administration team worked in the city of Tomsk in Siberia until spring 2008. They worked there in rented premises in an office block owned by Michail Malyarenko. A number of external companies also rent premises in the same building. During 2008, the Central Asia Gold Group paid SEK 134 thousand for rental of offices (SEK 426 thousand). This is the same rent that the other external tenants pay for the property.

Management company

Central Asia Gold's Russian subsidiaries have in recent years purchased management services from a management company in the city of Tomsk. The management resources have to a large extent been shared with the Swedish oil company Malka Oil AB in order to achieve economies of scale. The management company has not aimed at maximising profits. As mentioned above, since spring 2008 Central Asia Gold has almost completely stopped purchasing management services, in order to adapt itself to the requirements for Swedish quoted companies. During 2008, Central Asia Gold via its subsidiaries paid a total of SEK 3,029 thousand (SEK 7,943 thousands) to the management company. This cost was previously represented by salary costs and other incidental costs for its own staff. The owners of the management company are Central Asia Gold's two main Russian owners, Alexander Merko and Michail Malyarenko, who each own equal shares.

Planning company

Central Asia Gold's Russian subsidiary performs construction work under its own management in order to save money. However to receive a building permit for one's own personnel from the authorities, a responsible property development company must be hired to submit official documentation and to take responsibility for safety and other building regulations. In this case Central Asia Gold's subsidiary OOO Tardan Gold appointed the company OOO KUPIR to lead the construction work and to take charge of responsibility issues. Therefore parts of the construction cost are administered via KUPIR. Michail Malyarenko and his family own 100% of this company. During 2008 construction work equivalent to SEK 4,425 thousand (SEK 13,715 thousand) was carried out via OOO KUPIR.

Winding up of the jointly owned transport companies OOO Mars and OOO TKM against the issue of promissory notes

During the third quarter of 2008, Central Asia Gold wound up its partial ownership of the two transport companies OOO Mars and OOO TKM. These companies owned transport equipment that was to a large extent used jointly with the Swedish group Malka Oil. For reasons of transparency and efficiency the two owners decided to wind up these companies. The owners shared out the equipment, after which the two companies were wound up. In financial terms, this was done from Central Asia Gold's perspective by purchasing the equipment in question at book value, with the purchase being financed by the issue of bills of exchange (promissory notes). The most recently known holders of these promissory notes are OOO TKM (the former subsidiary) and OOO Kupir. In this context, promissory notes to a total nominal value of RUR 57,745 thousand (at the 2008 year-end equivalent to SEK 15,241 thousand) were issued. The liability to OOO Kupir shown below corresponds to parts of these promissory notes. The remaining promissory notes were last held by OOO TKM. The promissory notes, which are demand notes, fall due for payment at the end of the current year and are included in the group's interest-bearing indebtedness.

The above transactions with related parties are reported below in tabular format

	2008	2007
Purchase of guard services from OOO Shtjiit	3,341	5,312
Payment of office rent to OOO Tsunami	134	426
Payment of management fee to OOO Malca	3,029	7,943
Construction with OOO Kupir as construction manager	4,425	13,715

Pricesetting for services with closely related parties is performed on a market basis.

Short-term balances with closely related parties at the end of the year:

	2008	2007
Current receivables from		
OOO Shtjiit	32	277
OOO Tsunami	–	–
OOO Malca	–	762
OOO Kupir	–	8,027
Current liabilities to		
OOO Shtjiit	384	477
OOO Tsunami	–	–
OOO Malca	58	467
OOO Kupir	7,215	4,270

Note 27 Pledged assets/Contingent liabilities

Pledged assets of SEK 8,182 thousand relate to property, plant and equipment pledged to the Russian bank Sberbank as collateral for a loan granted to the subsidiary OOO Tardan Gold.

Note 28 Minority owners' share

The minority share in the group companies at year end 2008:

Group companies	Minority share,%	The minority share of equity in the group
OOO Tardan Gold	0.00%	0
OOO GRK Tomano	0.00%	0
OOO Artelj Tyva	0.00%	0
OOO Artelj Lena	5.31%	1,595
OOO Karabel-Dyr	0.00%	0
OOO Uzhunzhul	0.00%	0
Total minority share		**1,595**

Occurrence of the minority in OOO Artelj Lena

During early 2008 a minority stake of 5.3% was taken in OOO Artelj Lena. The background to this 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 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 owning 5.3% of the now reorganised company OOO Artelj Lena. In 2008, Central Asia Gold's and Artelj Lena's legal representatives undertook comprehensive legal work aiming to minimise the effects of this minority case.

Note 29 Material events after the end of the financial year

Merger CAG - NMC

On 3 November 2008 a purchase contract was signed with the owners of the Russian gold company New Mining Company (NMC). In purely technical terms, the transaction was carried out by CAG AB taking over the ownership of NMC via a non-cash share issue. The sellers of the assets, Preston Haskell and Andrey Kondratjukin, received via their holding company in all 3,000,000,000 newly issued shares and 500,000,000 warrants with an exercise price of SEK 0.20 per share and a term of 3 years. An Extraordinary General Meeting on 22 December 2008 approved the transaction, and thus the two sellers now control together 85% of the capital and votes in CAG AB following completion of the deal which took place in March 2009. The NMC group consists of five different companies located in the Tchita region in Eastern Siberia. The group's gold assets include two mining deposits and one alluvial gold deposit. During 2008 about 270 kg of gold was produced. A leaching factory exists and is in the early stages of operation. The first of the two mining deposits went through an official reserves approval process at the end of 2008, which established 8.1 tonnes of C1/C2 gold reserves. The total gold reserves in the three deposits are estimated for the time being at about 20 tonnes. Gold production at NMC is estimated to amount to 300 – 400 kg in 2009.

EGM at CAG AB held on 12 March 2009

At this meeting, the board (described in more detail below) was elected, and Preston Haskell was elected Chairman of the board. It was decided to carry out a consolidation (reverse split) of the share capital in the ratio 200:1. The new quotient value of the CAG shares thereby becomes SEK 10 after the consolidation, and the number of shares outstanding will thereby fall to 17,653,125. This includes the shares issued to the sellers of NMC in compensation for the NMC assets. At this meeting, the new board also gained approval during that time until the next AGM, with or without a departure from shareholders' preferential rights, on one or more occasions, to decide on the issue in total of not more than 10,000,000 new shares (after consolidation), equivalent to a dilution of approx 33.2% of the company's share capital and total number of votes. The issue price shall on each occasion be as close to the market value as possible. Soon after the day of the meeting, a new management group was appointed to the Company. These include Sergey Gorbachev (CEO), Yury Ivanov (CFO) and Vladimir Shmakov (Chief Legal Advisor).

Currency and gold price trends during 2009

The Russian currency RUR does not have a fixed exchange rate with the rest of the world, and therefore fluctuates in value, though with vigourous intervention by the Russian Central Bank. During 2009, the exchange rate was allowed to depreciate substantially. During the first two months of 2009, the rouble fell by nearly 20% against the US dollar. This meant a considerable reduction in operating costs for Russian gold companies, other things being equal. At the same time, the international gold price rose in terms of US dollars during 2009. In rouble terms, the increase in the price of gold was even greater.

Loan granted to the company Zabaikalgeoresurs

In 2007, the subsidiary OOO Tardan Gold granted a loan in roubles to the Russian company Zabaikalgeoresurs. The loan was granted in conjunction with OOO Tardan Gold's acquisition of CAG's former subsidiary OOO Kopylovsky. The loan is denominated in rules and fell due for payment in January 2009. At the 2008 year-end the loan amount and interest was SEK 2,558 thousand. The borrower intends to repay the loan with interest, but at the end of the period had not yet done so. At the time of writing, discussions are underway with the borrower about how the matter should be settled.

Note 30 Dividend of Kopylovskoye

On 30 December 2008, CAG AB dividended all the shares it owned in Kopylovskoye AB to the shareholders in CAG AB. For each share in CAG AB the shareholders received one share in Kopylovskoye AB. The group's income statement includes income and expenses attributable to Kopylovskoye AB up to and including 30 December 2008 when the dividend was carried out. Kopylovskoye AB's entire balance sheet was de-consolidated from CAG AB's group balance sheet.

In accounting terms, the dividend resulted in CAG AB's group balance sheet being de-consolidated as follows.

	(all amounts in SEK million)
Intangible assets	142
Property, plant and equipment	58
Current assets	20
Liabilities	-61

The dividend has been reported directly above group equity. In cash terms, the dividend had a negative effect on cash flow of SEK 13 million.

For the parent company, the dividend meant that the participating interests in subsidiaries and equity fell by SEK 94 million.

Note 31 Ore calculation principles – IFRS 6

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 most 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 then 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 application of IFRS 6. Central Asia Gold has applied IFRS 6 since autumn 2004. In accordance with this rule, all costs directly classifiable to exploration/evaluation must be capitalised after an assessment has been made that ore mining will start, or that the mine in question can in some other way be sold off at a profit. Central Asia Gold made an assessment as early as 2004 that the Tardan deposit should be put into production. This was in fact done in 2007. Thereby the capitalised evaluation and later expansion costs relating to Tardan were entered into the item Mining permits in the group balance sheet. After that, depreciation is done in accordance with the Unit of production principle. Such depreciation has been done at Central Asia Gold since 2005. As regards unit of production costs for Tardan, they were calculated for the years 2005 – 2008 based on the gold reserves of 6.8 tonnes (200,000 oz.) established in the early 1990s. Furthermore, the judgement was made that these gold reserves should be produced over a 10-year period. In the autumn of 2008 a new examination of reserves was carried out at the Tardan deposit. The established gold reserves thus became 8.4 tonnes (270,000 oz). These gold reserves will form the starting point for a new calculation of the unit of production when the next step in gold production at Tardan starts.

The registered ore reserves are thus established by a party (GKZ) that is independent of Central Asia Gold. The reserves are 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 things like the price of gold, new geological information, currency exchange rates and cost levels. A change in ore reserves can have a considerable impact on things like depreciation, restoration costs and the book value of assets.

An impairment test was carried out on the group's productive gold assets at the 2008 year-end. Most of the tested values came from the Tardan deposit. For this purpose, a discounted cash flow model has been used extending over a 10-year period. A number of variables are simulated in the model. Among the more important quantities are the price of gold, the yield required and the stripping ratio. The base assumption about the price of gold during the period is 850 USD/oz, the yield required is 10% per year, and the stripping ratio is 5. A number of other assumptions are also important. The result of the base assumptions is that no write-down is needed for the Tardan deposit at the 2008 year-end. The sensitivity of the assumptions is explained in more detail in note 25.

The two alluvial gold producers in the group are mature companies, and following write-downs during 2008, there are no remaining intangible assets to be written off.

Note 32 Acquisition of New Mining Company

On 2 March 2009 CAG AB completed the acquisition of New Mining Company ("NMC") in the form of the acquisition of five Russian limited liability companies (GRE, Solcocon, Boreservice, Gold Borzya and Rudtechnology). The acquisition was made through a non-cash issue of 3,000,000,000 shares and 500,000,000 options in CAG AB. The options have an exercise price of SEK 0.2 per share and a term of 3 years. Following the transaction, the previous owners of NMC own 85% of CAG AB.

In the consolidated accounts the acquisition of NMC is treated as a reverse acquisition in accordance with IFRS 3, which means that the the accounting is done as if NMC had acquired CAG AB. A consequence of this is that CAG AB's assets and liabilities in the consolidated accounts are initially reported at fair value, while NMC's assets and liabilities are recognised in the group accounts at their book values. According to the preliminary acquisition and analysis, the costs of acquisition are estimated at around SEK 35 million. The preliminary fair values of the assets and liabilities are shown in the table below.

Fair value of CAG AB's assets and liabilities at the acquisition

	(all amounts in SEK million)
Intangible assets	104
Tangible assets	86
Current assets	164
Deferred tax	-25
Provisions	-1
Non-current liabilities	-12
Current liabilities	-63
Preliminary net assets at the acquisition	253
Total acquisition costs	35
Negative goodwill	218

Auditor's report

To the Annual General Meeting of

Central Asia Gold AB (publl)

Corporate identity number 556659-4833

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the CEO of Central Asia Gold AB (publ) for the financial year 2008. The company's annual accounts and the consolidated accounts are included in the printed version of this document on pages 39-70. The board of directors and the CEO are responsible for these accounts and the administration of the company and for ensuring that the Annual Accounts Act is applied when preparing the annual accounts and that the international reporting standards IFRS as adopted by the EU and the Annual Accounts Act are applied when preparing the consolidated accounts. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I 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 CEO, and significant estimates made by the board of directors and the CEO when preparing the annual accounts and the consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion concerning discharge from liability, I 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 CEO. I also examined whether any board member or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and thereby give a true and fair view of the company's results and financial position in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international reporting standards IFRS, as adopted by the EU and the Annual Accounts Act and provide a true and fair view of the group's result and financial position. The statutory Administration Report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the loss of the parent company be dealt with in accordance with the proposal in the Administration Report, and that the members of the board of directors and the CEO be discharged from liability for the financial year.

Stockholm, 29 April 2009

Johan Arpe
Authorised Public Accountant

Central Asia Gold

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