



Central
Asia
Gold

ANNUAL REPORT 2011

Annual report for the financial year 2011

Translation

This English annual report is a translation of the Swedish annual report for 2011. 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 2012

Central Asia Gold AB's financial year runs from 1 January to 31 December. During 2012, the Company will issue interim financial information as follows:

Interim report (1) Jan–Mar 2012: 24 May 2012

Interim report (2) Jan–Jun 2012: 29 August 2012

Interim report (3) Jan–Sep 2012: 28 November 2012

2012 Annual General Meeting

The Annual General Meeting will be held on Thursday, May 24, 2012 at 10.00 a.m. in Näringslivets Hus, Storgatan 19, 114 85 Stockholm. Registration for the meeting commences at 9.30 a.m.

Shareholders wishing to participate in the meeting must:

(i) Be entered in the shareholders' register kept by Euroclear Sweden AB (the Swedish Central Securities Depository & Clearing Organization) on the record day Friday May 18, 2012. Shareholders who have had their shares registered in the name of a nominee must, well in advance of May 18, 2012, through the nominee, temporarily register the shares in their own name in order to be entitled to participate in the meeting.

(ii) Notify the Company of their attendance no later than 4 pm on May 18, 2012, via email at the address agm@centralasiagold.se or via letter to Central Asia Gold AB, Engelbrektsplan 2, 4 tr, 114 34 Stockholm. Notification must include full name, personal ID number or corporate registration number, address and telephone number and, if applicable, information about proxy, representative and assistant.

In order to facilitate entry to the meeting, notification should, when appropriate, be accompanied by powers of attorney, registration certificate and other authorization documents. Forms for power of attorney can be downloaded from the Company's website www.centralasiagold.se. A person representing a legal entity must present a registration certificate, not older than one year, or equivalent documentation indicating the signatory right.

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CAG in brief

Central Asia Gold AB ("CAG AB") is a Swedish junior mining company focused on gold exploration and production in Russia, primarily in Zabaikalskiy region and the Republics of Khakassia and Tyva. The company has currently four sites, including two operating mines two early stage exploration assets, one of which, Kara-Beldyr LLC, is a joint venture with the major Canadian gold producer Centerra Gold Inc.

The group's main assets comprise a large number of mineral licenses held by the various subsidiaries. The licenses as at the end of April 2012 are estimated to contain almost 1,000,000 troy ounces (oz) (1 oz = 31.1 g) of gold reserves according to the Russian C1+C2 categories (equaling some 32 tons).

In December 2011, Central Asia Gold AB employed 493 persons, including contractors. In 2011, 410 kg of gold were produced.

Headquartered in Stockholm, Sweden, Central Asia Gold AB is listed at the Swedish stock exchange NASDAQ OMX First North Premier. The number of shareholders was approximately 3,500 as of January 31, 2012.

In April 2012, the company had 17,616,987 ordinary shares in issue and a market capitalization of approx. 300 MSEK.

Our vision

To explore new gold reserves and bring them to production based on strong technical expertise, cash flow from existing operations and access to international capital markets.

Our goal

Our goal is to create value for our shareholders by minimising the exploration risk of taking discovered reserves to production. Our primary focus is gold in Russia but other minerals and countries may become the focus of the company's business over time.

Our values

Safety

Our highest priority is safe and healthy working environment for our employees. We are constantly searching for new and innovative methods to ensure the safety of our employees. We can proudly say that the level of injuries and illnesses is very low in the company.

Respect

We are committed to provide a positive working environment free of discrimination and harassment in all of our activities. We act and treat each other with dignity and respect. We believe that employees who are treated with respect have a higher level of professional performance. All our employees are given the equal opportunities for the career development. We reward and encourage teamwork, creativity and innovation.

Social responsibility

We are actively engaged in the social communities of the local areas where we operate by, among other things, supporting and contributing to education and infrastructure and by prioritizing the local population when employing staff in the company.

Responsible mining

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

Significant events during 2011

May 2011 Additional 9 tones of gold reserves at Kozlovskoe deposit were approved by the State Reserve Commission of the Zabaikalsk Region.

June 2011 The Company strengthens its management team and appoints a new CFO Johan Arpe and a new Chief Geologist Alexander Zabolotskiy.

July 2011 Sale of the alluvial producer Artelj Lena LLC which was in line with the Company's strategy to focus on hard rock exploration and production.

August 2011 28 MSEK were raised via a directed share issue to a limited number of investors.

December 2011 Receipt of the cyanide permit for the Tardan heap leaching plant, allowing Central Asia Gold to increase the Group's production capacity.

CEO comments



Dear fellow shareholders,

The main focus of 2011 has been to complete the construction of the Tardan heap leaching plant and get all the permits needed to commission the plant. Due to non-performance in the project management for the project during 2010 and the first half of 2011, the company has experienced delays and cost overruns in the project, but the construction of the first phase was successfully completed in the third quarter of 2011 and the permit to use cyanide was received on December 28 2011, enabling us to start irrigation of the heaps.

Currently, all efforts are being made by the management to receive the final permits needed for the phase II commissioning and the expectation is that the plant will be fully permitted during the second quarter of 2012. Currently the company is running the tests of the phase II equipment, and the preliminary results show that both gold and copper desorption cycles work very well. The estimated full year capacity of the plant is 1,000–1,200 kg per year, but due to the late start in 2012 and an expected ramp up phase of production, the estimated total production at Tardan in 2012 is 400–600 kg.

While Tardan has been the main focus of operations in 2011, the other hard rock production unit Solcocon has delivered a good production, but suffered from low profitability and problems with the supply of oxidized ore for full capacity of production. Solcocon management is currently in the process of evaluating the technology of including semi-oxide ore in the process. If this proves to be feasible, Solcocon will have up to 500 thousand tonnes of ore suitable for a heap leaching. Meanwhile management is also evaluating other future prospects of Solcocon and will in the short- to medium term focus on profitability of this business unit. The production target for Solcocon for 2012 is 200–250 kg.

During 2011 the company continued its work to phase out alluvial production through the sale of the production unit Artelj Lena. The remaining alluvial production unit, Gold Borzja, experienced some operational challenges in 2011, including heavy rainfalls during the production season and increased production costs. For the 2012 production season an operational outsourcing agreement has been signed with a local alluvial producer and the estimated production for Gold Borzja in 2012 is 150 kg.

The weak performance of the production units Solcocon and Gold Borzja in 2011 and the delay in the commissioning of the Tardan heap leaching plant has had a significant negative impact on the financial performance for the year. The financial result has also been affected by write downs made as a consequence of the operating performance in 2011 and the non-performance of the Tardan heap leaching project during the first half of the year.

On the positive end, the Kara-Beldyr joint venture with Centerra Gold Inc. has shown very promising results from the exploration works performed in 2011. In February 2012, Centerra announced a preliminary resource estimate for the Gord Zone of the Kara Beldyr project with an indicated resource of 289,000 ounces of contained gold and an inferred resource of 211,000 ounces of contained gold according to NI 43-101 standards. This significantly increases the resources of CAG, who currently owns 30% of the Kara Beldyr joint venture. Further exploration work will be carried out in 2012. Centerra has set a target of 1.5 million ounces of reserves for Kara-Beldyr by the end of 2013.

During December 2011 CAG was able to secure additional debt financing for the subsidiary GRE (the license holder of both Solcocon and Gold Borzja) in the amount of SEK 44 million and in February 2012 a new loan- and restructuring agreement for the subsidiary Tardan, in a total amount of SEK 110 million, was signed.

Whilst 2011 have been a challenging year and the financial results have been disappointing, having just returned from the Tardan site, I am confident in the outcome of the new production facility and that the permitting and commissioning of the plant follows our current time plan. I have personally supported the company with short-term bridge loans of approx. 160 MSEK and believe that the company now is well prepared to take advantage of the favourable macro environment for gold producers and deliver a profitable future for the company and its shareholders.

Preston Haskell
Chief Executive Officer

CAG's Market – Gold

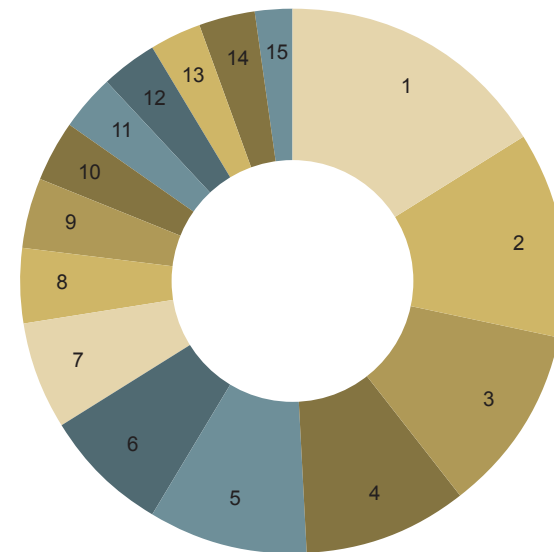
For many years gold has been valued as an investment, commodity and monetary asset, as well as an object of beauty. Since gold is, in principle, indestructible, all the gold that has ever been produced still exists in one form or another. At the end of 2011, the gold consultancy company Gold Field Mineral Services ("GFMS") estimated that there was a total existing amount of approximately 166,600 tonnes of gold in the world. Of this, 66% is estimated to have been mined and manufactured after 1950. The greatest consumption of gold by far is associated with the jewelry industry, corresponding to 54% of the total world demand. Since a long time, India and China have been the world's largest consumers of gold. During the past few years, the demand in the jewelry industry has mostly exceeded the total mine production of gold. 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 biggest individual holders of gold—central banks, international organizations and governments—are believed to account for approximately 16.5 percent of the world's gold, holding about 30,700 tons. In the recent years, the central banks of Russia, China and India significantly increased their gold reserves. The central bank of the USA has the biggest gold reserve in the world.

The following gold deposits are considered to be the largest ones in the world: Witwatersrand in South Africa, Grasberg in Indonesia, Natalka, Olympic Dam and Sukhoi Log in Russia. However, some of the richest gold deposits remain undiscovered, as they reside in oceans and are not profitably minable.

The world's gold production

The world's primary gold production increased during 2011 by 3,8% compared with the previous year, according to GFMS. Total gold production amounted to 2,812 tonnes. Over half of this gain came from Africa, where output rose by 64 tonnes. In 2011, for the fifth year running, China was the leading country worldwide for gold production, while Russia was in the fourth place.

According to GFMS, the global total cash costs rose in the third quarter of 2011 by 14% totaling 628 USD/oz. This was the tenth consecutive quarter of rising total cash costs, mainly due to appreciation of major producing countries currencies but



The 15 largest gold-producing countries

Source: Gold.prime-tass

- 1 China
- 2 Australia
- 3 USA
- 4 South Africa
- 5 Russia
- 6 Peru
- 7 Indonesia
- 8 Canada
- 9 Ghana
- 10 Uzbekistan
- 11 Papua New Guinea
- 12 Brazil
- 13 Argentina
- 14 Mexico
- 15 Mali

also due to increased royalty and tax payment, which are revenue related.

The gold price

In 2011, the gold and precious metal fund market demonstrated a continued demand.

The average global price of gold increased in 2011 to USD 1,572 from USD 1,226 in 2010. The increase, expressed as a percentage, was therefore 28%. The gold price record high of 1,896 USD was reported in September 2011.

Gold production process

Exploration

Geologists use advanced technologies, such as satellite imagery and geochemistry in order to identify prospective areas, where geophysical exploration and drilling are to be conducted.

Construction of a mine

It can take up to 12 months to build the simplest mine and up to a couple of years before the gold is brought out of the earth. Once a gold deposit has been discovered, the infrastructure needs to be built before the operation can commence, this can take a year or more to complete. An open pit mine can take 12 months to prepare. However, along with other planning, infrastructure construction and government approvals, the time between discovery and operation can take up to approximately five years.

Nowadays, mines are designed with help of advanced computer programs, allowing

for precise and accurate delineation of the ore deposit.

Drilling is undertaken in different parts of the site in order to identify the quality and quantity of ore by taking samples. The samples are later analysed and decision is taken on whether mining is economically justified.

Mining and processing

Advanced mining equipment is used to remove waste rock from above the ore in order to commence mining. After mining, the ore is transferred to the process plant. Low grade ore is directly leached with a cyanide solution, which is used to break down the gold into a solution that is collected for further processing. High grade ore is milled to a powder, treated in a gravitational recovery circuit and the tailings are later leached with a cyanide solution.

Gold is extracted out of the cyanide solution and the cyanide waste is collected in order to be detoxified or recycled.

Refining

The raw gold is then smelted and doré bars are produced that contain up to 90 percent gold. The doré bars are sent to a refinery to be refined to 99.99 percent gold bars.

What is gold used for?

For centuries gold has been a symbol of wealth and plenty. One of the gold's primary uses is jewelry. Gold was known already in early civilizations due to its recognised beautifying properties. This metal was linked to royalty and gods. It's perma-

nent brilliance and resistance to corrosion are the properties which differ gold from other metals. Gold is the easiest metal to work with and is easy in smelting. Except for jewelry manufacturing, there are many other fields of use for this precious metal as well.

Having a defined value and being relatively easily transportable, gold has been used in the financial transactions since a long time ago. Even today gold is one of the world's most popular investment forms and is considered as an investor's "safe haven" in times of distress. It is an excellent hedge against inflation and is a way of protecting the earnings for the future.

Gold is also used as an important component in such fields as electronics, medicine and aerospace. As a good conductor of electricity, gold is used in production of the world's most advanced electronic devices. Due to the metals ability to withstand corrosion, gold is a popular element in the computer industry. In aerospace due to higher radiation, gold is used in order to lubricate the mechanical components, which would not be possible using the organic materials. Gold-coated ployster fils is used in spacecrafts helping to keep the constant temperature inside of them. Gold is also used in medical industry, in diagnosis and treatment of certain medical conditions, such as cancer. Being non-allergenic, gold is used in dentistry in fillings and crowns.

Surprisingly, gold leaf is also used in bakery for cake decoration.

The list of what gold can be used for is very extensiv, making this metal a commodity that we humans would find it very hard to live without.

The history of gold mining in Russia

As early as in the fifth century BC, a famous greek historian Herodotus, noted, based on the stories of travelers, that the deposits of the Rif (nowadays Ural) mountains were very rich, based upon the amount of jewelry that the local residents wore. However, during the long history of the ancient, Moscow Rus, no gold deposits were discovered on the territory of the country.

The Russian tsars wanted gold to be mined somewhere nearby. Tsar Ivan the Third, brought experienced craftsmen from Italy.

However, all his efforts only resulted in rumors regarding a gold nugget so big that it would be enough for a golden cross. Ivan the Terrible began to conquer the whole of Siberia in order to find gold. The Cossack Army even reached the borders of Kolyma, without any result.

Peter I started exploration of the mineral resources in Russia with great ambition, i.e. with imagination and an ax. He even established a special ministry in the beginning of 1700, pursuant to his "Order on ore-mining", and later in 1719 – The Board on Mining. Specialists were invited from all over Germany, but no significant results were reached.

Finally, in 1714, in the Trans-Baikal Nerchinsk mines, a wise man was found, Ivan Makeev, who learned how to extract gold from the silver ore. Later, according to the Makeev method, the precious metal was mined in the Altai silver mines belonging Akinfiy Demidov. In 1760, on the Ural river Iset a factory was built for the extraction of gold. Over time, in Russia up to 400 kg of gold per year were extracted from the polymetallic ores.

Peter I took an unprecedented step, and, in December 1719, declared freedom of mining. But, officially, the start of gold mining in Russia is considered to be 1745, when the farmer Erofei Markov found gold ore in the Ural river Pyshma.

In 1747, the first gold mine was opened, from which the famous Berezovskiy mine and all gold industry in Russia started. The first 132 grams of gold were officially handed over to the Empress Elizabeth. At the same time at the St. Petersburg mint, the refining (i.e. cleaning) of gold started. (Even today the Berezovskiy mine is active).

In 1782, "the mining freedom" of Peter I was cancelled by Catherine II, decreeing the landlord monopoly on mineral resources. Subsequently, on May 28, 1812 a formal decree of the Senate, contrary to the decree of Catherine, giving the right to private entrepreneurs to mine gold ore and silver, was approved.

In 1761, Mikhail Lomonosov, developed a theory of the formation of gold-bearing alluvial deposits (formed by the weathering of gold-bearing rocks) and proposed a scheme for their development. But it took a long time before gold was discovered,

due to observation of the mining engineer Lev Ivanovich Brusnitsyn, who in 1814, in the waste of the Berezovsky crafts, discovered the traces of alluvial gold. The Brusnitsyn experience allowed in 1824 to find the rich deposits in the basin of the river Miass. It is in this region, in the Tashkutarganskiy deposit, that gold prospector Syutkin found a nugget later called "The Big Triangle", weighing 36 kg, which is now kept in the Diamond Fund of the Kremlin as the largest of the existing nuggets in the world.

In the 1827-1830, the industrial placer deposits in Western Siberia and Transbaikalia were discovered (Tomsk province, Minusinskiy, Kaktebinskiy county regions, basin of the Angara river, Nerchinsk district). From 1825 to 1832, in the Altai region around 450 placer deposits were discovered. This was followed by the opening of the rich alluvial district Lenski (1847) and in the second half of the XIX century by discovery of the Maritime Territory, and at the beginning of XX century discovery of the Kolyma region.

Discovered deposits were immediately refined. By 1834, Russia became the world's largest gold producer, producing for 30 years more gold than the entire world, until the discovery of gold in California. The average annual production of gold during the XIX century, steadily increased from 276 kg in 1816 to 48 tonnes in 1906-1910 years. The maximum production was achieved in the pre-revolutionary Russia in 1914, when 61.7 tonnes were mined (the fourth place in the world). The major contribution was made by the gold-diggers, "prospectors," using primitive methods of mining.

Before 1917, a total of 2,500 tons of gold were produced in Russia (90.7% from placer gold, 8.8% from ore and 0.5% associated), out of which 1,620 tons were mined by the prospectors (55.8%).

The First World War, the revolution in 1917 and the Civil War had a negative effect on gold mining. In 1921 only 1.8 tons of gold were produced. In these years, a sad fate befell the gold reserves accumulated by the Russian state. By the end of 1913's, gold reserves amounted to 1,684 tons, of which the centralized funds accounted for 1,303 tonnes – the second largest after the United States. First, in the First World War, 408 tons of gold were moved to England

in form of security for the loans. In the Civil War as a result of preservation in Kazan, and later in Omsk, the gold stocks were diminished to 504 tons. After Kolchak's attempts to remove the gold abroad only 317 tons were left. The rest of the gold reserves were used to cover the most urgent needs of the devastated country.

The 1914 level of production was only achieved in 1934. The production increase would have continued, if the government had not again stepped in, depriving miners of benefits. The effect was not long in coming: in 1939 the contribution of prospectors was 20 tons. Only after the cancellation of the corresponding resolution by Stalin in 1941 the volume of prospector's mining restored. In subsequent years, until the present day, the consecutive decisions at the governmental levels, gave the prospector's activity a status of the state mineral resources development, while maintaining its effectiveness.

Since the beginning of the industrialization of the country (1928), the country crossed another historic milestone – the systematic exploration of the USSR, including prospecting and exploration activities throughout the country. The results were not long in coming. In the prewar period, the most outstanding achievements of geology were related to the discoveries of the new deposits and entire gold areas. The new gold deposits were found in Western and Eastern Siberia. The Ural mines were restored. In Kazakhstan, the gold mining industry re-emerged. In the 30s the beginning of large-scale mining of gold ore started. In 1934, almost a half of the gold mined came from the ore.

The maximum gold production in the Soviet Union was achieved in 1989, amounting to 304 tons. In total, in the USSR 11,000 tons of gold were produced in 1918–1990.

After the collapse of the Soviet Union, gold production in Russia constantly declined, and in 1998 reached a record low 114.6 tonnes. Then began the restoration of the gold mining industry and, in 2000, the industry reached the 1991 level of production, having produced 130.8 tons of gold. In 2002, the gold production in Russia exceeded the level of gold production in the USSR, the production of gold (including associated production and secondary production) reached 170.9 tons.

According to experts, the decrease in gold production in 2004–2007 was due to lack of stocks of raw materials, the insufficiency of exploration, depletion of the previously discovered fields and difficulties in registration of licenses. It concerned such important mining fields as Kubaka (Magadan region), Mnogovershynnoe and Tas-Yuryakh (Khabarovsk region), Olimpiadskoe (Krasnoyarsk region).

In recent years a number of laws were adopted or amended in Russia in order to stimulate the development of national industries, which had a direct impact on the mining sector and a positive sign for the industry is the decision to increase the amount of public funding in geology since 2012. The optimism is also based on the tendency of active participation in gold mining in Russia of the large number of foreign companies, such as «Barrick Gold Corporation», «Kinross», «Peter Hambro» and «Nordgold NV».

The Russian gold industry in 2011

Official Russian gold production calculated by the Russian Union of Goldminers increased during 2011 by almost 2,8 % and totaled 214 tonnes. In 2011, Russia was the world's fourth largest gold-producing country.

80 % of Russian gold production in 2011 is distributed across 24 regions (of a total 84 in Russia) and since 2003, the leading region has been Krasnoyarsk followed by the Amur region, which increased its production by approximately 10 tonnes in comparison to 2010. In third place is the Chukotka region, followed by the Yakutia region, which remains the fourth 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, 2011

Region	Production, tonnes
1. Krasnoyarsk	39.5
2. Amour	29.1
3. Chukotka	20.0
4. Sakha (Yakutia)	19.3
5. Irkutsk	16.9
6. Magadan	15.3

Source: Russian Union of Gold Miners

Industrial structure – reduced fragmentation

The Russian gold sector is highly fragmented, with the 26 top companies accounting for about 81% of the country's total production in 2011. The clear leading producer is Polyus Zoloto, formerly Norilsk Nickel's gold division, whose shares since 2006 have been listed on the London stock exchange.

Russia's 26 leading gold producers, 2011

Company	Production, tonnes
1. Polyus Zoloto	42.8
2. Petropavlovsk	21.2
3. Chukotskaya	16.0
4. Polimetall	10.9
5. Nordgold NV	10.6
6. Highland Gold Mining	5.7
7. Yuzhuralzoloto GK	5.1
8. Vysotjajshij	4.4
9. Sovrudnik	3.4
10. Susumanzoloto	3.2
11. Seligdar	3.0
12. Priisk Solovevskij	2.8
13. Vitim	2.3
14. Zapadnaya	2.3
15. Poisk	2.2
16. Zoloto Kamjatki	2.1
17. Amur Zoloto	1.6
18. Rudnik Karalveem	1.4
19. Dalnevostochnye resursy	1.2
20. Druza	1.3
21. Omsukchanskaya	1.2
22. Oyna	1.2
23. Chukotka	1.1
24. Koncern Arbat	1.1
25. Status	1.0
26. Vasilevskij Rudnik	1.0
Total production of 26 leading producers	145.2

Source: Russian Union of Gold Miners

Refining gold

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

Legal factors

The main law regulating the Russian mining sector is the "Federal Law on 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 produc-

tion 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 GKZcommittee, the state Russian mining inspection (Gozgortekhnadzor) and also by the environmental authorities. A second legal

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

Foreign gold producers in Russia (kg per year)

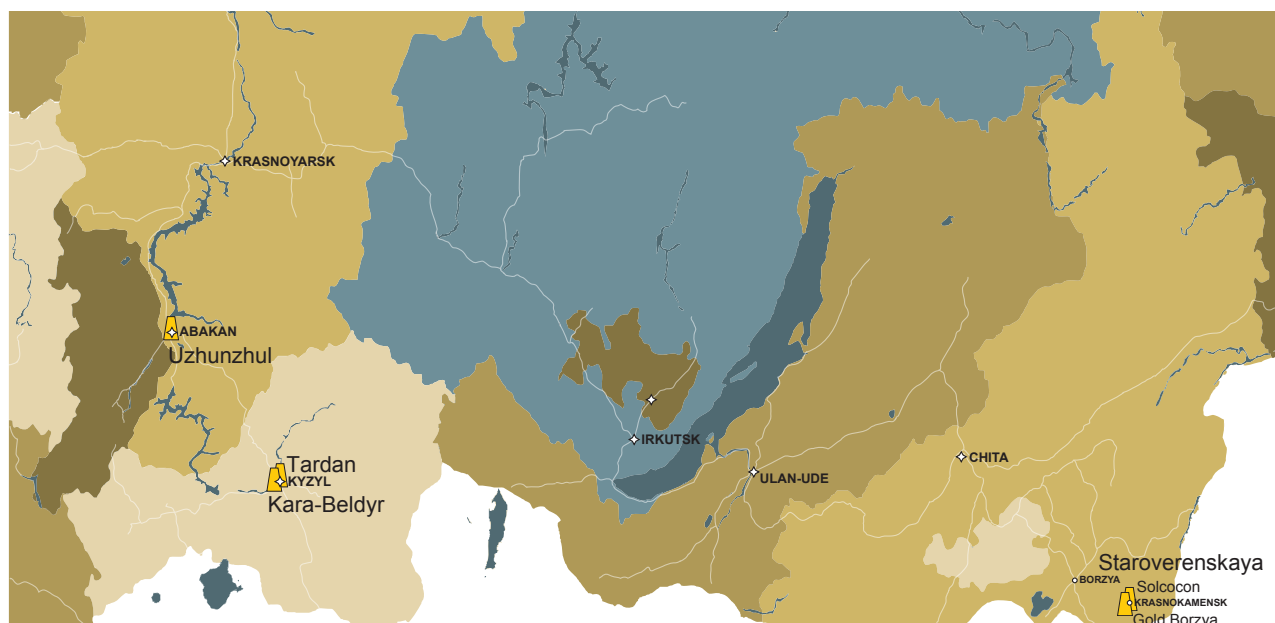
Company	2007	2008	2009	2010	2011
Kinross Gold Corp	1,942	11,575	25,591	19,910	16,061
Petropavlovsk Plc	0	0	14,835	13,924	19,593
Highland Gold Mining	4,623	5,120	5,145	5,338	5,739
Leviev Group	134	1,221	1,969	1,893	1,401
Angara Mining Plc	1,594	1,057	949	850	700
Central Asia Gold AB	1,073	834	666	730	410
High River Gold Mines	4,683	1,867	0	0	0
Bema Gold Corp.	110	0	0	0	0
Total	14,159	21,674	49,155	42,645	43,904

Source: Russian Union of Gold Miners



CEO Preston Haskell and the local management team at Tardan.

CAG operations



General

Central Asia Gold AB (“CAG AB”) is a Swedish junior mining company focused on gold exploration and production in Russia, primarily in Zabaikalskiy region and the Republics of Khakassia and Tyva. CAG’s vision is to explore new gold reserves and bring them to production based on strong technical expertise, cash flow from existing operations and access to international capital markets. Our primary focus is gold in Russia but other miner-

als and countries may become the focus of the company’s business over time.

The company currently has four sites involving exploration and production of gold and the group’s main assets comprise a large number of mineral licenses held by the various subsidiaries. The licenses as at the end of April 2012 are estimated to contain almost 1,000,000 troy ounces (oz) (1 oz = 31.1 g) of gold reserves according to the Russian C1+C2 categories (equaling some 32 tons).

The license areas operated are Tardan, Staroverenskaya, Uzhunzhul and Kara Beldyr. Kara Beldyr is operated through a joint venture with the Canadian company, Centerra Gold Inc., CAG’s ownership in the joint venture as at December 31, 2011 is 50%. In January 2012 Centerra, earned another 20% in the joint venture and CAG’s share of the joint venture is currently 30%. The other license areas are wholly owned by CAG. The registered reserves of CAG’s licenses are displayed in the table below.

NI 43-101-Compliant Gold Resources

License Deposits	Alluvial/ Hard Rock	Measured & Indicated				Inferred				License expiration	
		Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz	Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz		
Kara-Beldyr										2027	
Kara-Beldyr*	Hard Rock	1,137	2.4	2,697	86.7	1,006	2.0	1,969	63.3		
Total		1,137		2,697	86.7	1,006		1,969	63		

* The resource numbers above represent CAG’s 30% share in the Kara-Beldyr joint venture.

GKZ-Compliant Gold Resources

License Deposits	Alluvial/ Hard Rock	C1				C2				License expiration	P1/P2** 000 kg
		Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz	Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz		
Tardan										2028–2032	22
Tardan deposit	Hard Rock	1,454	3.75	5,454	175.4	524	4.45	2,332	75.0		
Tardan exploration licence	Hard Rock					270	6.14	1,656	53.2		
Staroverenskaya										2029	132
Kozlovskoye	Hard Rock	262	8.77	2,297	73.8	869	7.78	6,764	217.5		
Bogomolovskoye	Hard Rock	20	2.95	59	1.9	2,141	3.48	7,460	239.8		
Borzha	Alluvial	166	1.34	222	7.1	1,036	1.41	1,456	46.8		
Uzhunzhul	Hard Rock									2031	26
Total		1,902		8,032	258.2	4,840		19,668	632.3		180

** Based on in-house calculations.

On the Tardan license area, CAG has a gravitational plant and are in the process of finalizing the permitting and commissioning of the newly build heap leaching plant. On the Staroverenskaya license area CAG has the Solcocon heap leaching plant and the Gold Borzya alluvial production unit. The Uzhunzhul license area, as well as Kara Beldyr, is exploration licenses without production facilities. The production in 2011 by each production unit is shown in the table to the right.

The production forecast for 2012 is a production of 700–900 kg, of which 400–600 kg is expected from the Tardan production unit.

Production unit	License area	Alluvial/ Hard Rock	Production 2011 (kg)	Production 2010 (kg)*
Tardan (Gravitational)	Tardan	Hard Rock	96	160
Tardan (Heap Leaching)	Tardan	Hard Rock	–	–
Solcocon (Heap Leaching)	Staroverenskaya	Hard Rock	238	171
Sub total, Hard Rock			334	331
Gold Borzya	Staroverenskaya	Alluvial	76	235
Total			410	566

** Due to CAG's sale of all its shares in the alluvial producing subsidiary LLC Artelj Lena in July 2011, the production from Artelj Lena has been excluded from the table above. In 2010 the production at Artelj Lena amounted to 164 kg and the total production for 2010 was 730 kg.*

Environmental policy

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

cal compounds. On balance, therefore, the operations of Central Asia Gold are potentially damaging to nature. Many Russian environmental laws apply to the mineral sector. Environmental 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.



CAG's licenses

Tardan

License

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

Geological characteristics of the deposit

The Targan deposit is located in the Tumat Taiga folded belt of the Tyva folded area, south-west of the Kaa Khem deep fault zone.

The intrusive rock, occupying 40% of the area, is represented by diorites and gabbro-diorites, more seldom by granite and granite-porphyry.

The main or controlling elements of the deposit are the contact zones between carbonate rock and minor intrusions of diorites and gabbro-diorites, grouped into linear zones. The width of the ore zones within the boundaries of the ore field changes from a couple of meters to 30–50 meters, with the lengths of hundreds of meters.

The ore bodies are linearly elongated stripes of hydrothermally processed sulphidised scarns with extremely complex inner morphology. The length of the ore bodies is between 20 and 150 m, the width is between 1 and 12,8 m.

The ores in the deposit can be classified as two mineralogical varieties of the gold sulphide types gold sulphide ores and gold sulphide ores with magnetite. The magnetite content is 15–40% in the gold sulphide ores and more than 40% in the gold sulphide ores with magnetite. The total sulphide content is up to 5–6%, represented by copper pyrite, sphalerite and fahlore. The ores within the depth of exploration (100 m) are oxidised. The depth of occurrence of the primary ore has not been determined.

The ores are chatty, vein-disseminated to a lesser extent, the gold is mainly found intergrown with barren minerals: clorite, pyroxene, amphibole, aegirite, garnet (up to 60%), in contact with magnetite as inclusions (25%), in colloform limonite (10%). The gold content in the ore is between 0,5 to 280 g/MT. Gold fineness 870–910.

Object	C1				C2			
	Ore, 000 t	Au, g/t	Au, kg	Au, 000 oz	Ore, 000 t	Au, g/t	Au, kg	Au, 000 oz
Tardan deposit	1,454	3.75	5,454	175.4	524	4.45	2,332	75.0
Tardan license					270	6.14	1,656	53.2

Reserves

The registered reserves of the Tardan license according to the Russian standards are displayed in the table above.

Operations in 2011

During 2011, the operations were focused on completion of construction of the heap leaching plant and receipt of the necessary permits for commissioning of the plant. Due to non-performance in the project management for the project during 2010 and the first half of 2011, the company has experienced delays and cost overruns in the project, but the construction of the plant was completed in the third quarter of 2011 and the cyanide permit was received in December 2011. The Company is now fully permitted to operate the heap leaching circuit and the Phase I (sorption) of the heap leaching plant. Phase II permitting is still under way, with the target date to full permits being during the summer of 2012.

During 2011, 96 kg of gold was produced at the gravitational plant at Tardan. The production plan for 2012 is 400–600 kg from both the gravitational plant and the heap leaching plant.

Due to the delays in the construction and permitting of the heap leaching plant at Tardan, the exploration in 2011 was less than initially planned. During 2011 the assay of the geochemical samples from 2010 has continued and the core drill rigs and other equipment has been refurbished and prepared for the 2012 exploration programme. A new chief geologists was hired in the third quarter of 2011 and the geological team is now prepared to execute the 2012 exploration programme that will target known mineralized zones within the Tardan deposit and the Tardan license area with the purpose to extend the lifetime of the Tardan plants.

Staroverenskaya Licenses

The license for exploration and mining of hard rock and placer gold in Staroverensk area in Chita Region was awarded on

2004.09.19 and is valid until 2029.05.05. The license block area is 220.4 km².

Geography and economic situation

The license block is situated at the confluence of the small Srednyaya and Nizhnaya Borzya in the Transbaikalian Territory, 35 km from the regional center Kalga and 640 km from Chita. The nearest railway station is Dosatuy, 100km from the block. Roads are mainly unpaved and the distance to paved highways is 200 km. The climate is severe continental and the area is partly forested.

Geology

The area is mainly made up of Vendian series (meta-sandstones, meta-siltstone, shales, sericite-quartz, dolomite, and Cambrian (siltstone, dolomites, limestones), Jurassic (sandstones, siltstones, conglomerates) and Cretaceous (terrigenous-sedimentary rocks) limestones.

Intrusive rocks are represented by granite-granodioritic Undinian monzonite-granite Kadamskian, granite-leikogranite Lubinskian, monzonite-granodiorite-granite Shakhmatinskian and granite-porphyry-lamprophyric Nerchinskavodskaya series.

Tectonically, the area is confined to the Arginsky micro-continent in the Mongol-Okhotsk fold belt. Five structural levels in the visible section of the earth's crust are distinguished.

Faults of various orders have a strong influence on the tectonic structure of the area; the largest are the Kumatorsko-Kozlovskaya, Smirnovskaya and Nizhne-Borzhinskaya. These first order faults are associated with smaller ones of orders 2 and 3, which play an important role in localization of complex ore mineralization.

Geology of alluvial deposits

Placers are confined to valleys of orders II–IV. Valley morphology is determined by tectonic factors: valleys are situated along branches of the Kutomar fault zone. Valley shapes in plan are linear, cross section is trough-, bowl-like. Lobe length is 0.8–14.

Deposit	C1				C2			
	Ore, 000 t	Au, g/t	Au, kg	Au, 000 oz	Ore, 000 t	Au, g/t	Au, kg	Au, 000 t
Kozlovskoe	262	8.77	2,297	73.8	869	7.78	6,764	217,5
Bogomolovskoe	20	2.95	59	1.9	2,141	3.48	7,460	239,8
Borzya, alluvial	166	1.34	222	7.1	1,036	1.41	1,456	46,8

0 km. Total thickness of loose sediments in the valleys is from 2-3 to 18.5 m on average.

The size distribution of gold among placers is very irregular. Fine gold makes up 74%, medium gold is 12%, coarse gold is 7%, and fine dispersed is 7%. Gold grains are mainly weakly rounded. Grains are usually flat and cloddy. The gold grade is from 900 to 938 (per mille). Hydraulic size of gold is low due to multiple inclusions and porosity.

Reserves

The registered reserves of the Staroverenskaya license according the Russian standards are displayed in the table above.

Operations in 2011

During 2011, 238 kg of gold was produced by the Solcocon heap leaching plant at the Staroverenskaya license and 76 kg of gold was produced by the alluvial producer Gold Borzya at the Staroverenskaya license.

The production plan for 2012 is 150 kg from the alluvial producer, Gold Borzya through an operating outsourcing agreement with a local alluvial producer. The production forecast for Solcocon for 2012 is highly uncertain due to the problems with profitability and the supply of oxidized ore. The Solcocon production will in the short- to medium term focus at profitability rather than volume. The production target for Solcocon for 2012 is 200–250 kg.

The results of the exploration program at the flanks of Podgornoye deposit are near completion. The local management is currently evaluating the quality of the drilling works and lab tests before submitting the resource calculation to the state resource committee. Additionally, Solcocon has executed an internal exploration program at the Kozlovskoye deposit aimed at confirming the historical resource calculations, and received a good correlation with the existing assay results.

During the fourth quarter 2011 Gold Borzya's geological team has successfully

drilled a number of exploration profiles on the alluvial deposit with the aim of confirming the gold reserves for 2012 and identifying the areas suitable for the overburden dumps.

Uzhunzhul

License

License ABN00488BR for exploration and mining of hard rock gold in the Uzhunzhulsk ore cluster has been awarded for the period from 2008.11.20 to 2031.11.20. The license block area is 134 km². The license area is located in the Republic of Khakassiya, 80 km from the capital Abakan, an economically well-developed region, with large mining and metallurgical companies.

Prospects of the area

The area's gold potential has been known since the second half of the 19th century. Placer gold and hard rock deposits have been mined historically. Until the mid-20th century, gold was mined from quartz veins in the central Yurkovsky area; according to GOSBALANS, one of them accounts for a production 296.0 kg of gold from ore with an average grade of 10.2 g/t.

The area is a continuation of the structures that contain the Kuznetsovsk field (with reserves of about 1 MOz). The Uzhunzhul group proper contains a series of gold-showings: Yurkovsky, Paraspan and Karbay.

A geochemical survey of secondary dissemination areas was conducted in 2009–2011. An extended strip of contrasting geochemical gold anomalies was discovered, which contains both known ore deposits and previously unknown anomalies.

Mining and exploratory work has disclosed ore body crossings requiring further investigation.

The Paraspan prospect has demonstrated 30 g/t potential; on the eastern flank of the Yurkovsky prospect, lower grade ores are up to 74m thick (with conditions similar to Kuznetsovsk). The total thickness of metamorphosed rocks, enriched by po-

tentially productive gold mineralization in this location exceeds 100 m. Geological exploration in the area has a potential to increase the reserves in the area by at least 10 t.

Resources

Object	Alluvial/ore	Prognostic Resources
		P1/P2, t
Uzhunzhul	Ore/exploration	26

Operations in 2011

Geochemical sampling program of 100x100 m grid was carried out on the southern part of the Uzhunzhul license. 5,085 samples were selected and prepared for sending to the lab. Overall, 13,500 soil samples were taken in 2010 and 2011. Selective geochemical anomalies identified in 2010 were studied by CAG geologists in 2011, and additional 24 grab samples were selected from the prospective anomalies.

The 2012 exploration program has been designed with the expected resource identification of 3 tons Au (P1+C2). The program includes geochemical assays of 5100 samples (2011) and 3500 samples (2007), 10 km geophysics on anomalies, core storage construction, 4 km of trenching and 1.5 km of diamond drilling.

Kara Beldyr

License

The Kara-Beldyr exploration and mining license area is a 34 km² site situated in the Republic of Tyva, 170 km from the capital, Kyzyl.

The exploration work on the Kara-Beldyr license area is being undertaken in a joint venture with the Canadian mining company, Centerra Gold Inc. ("Centerra"). CAG's ownership in the joint venture as at December 31, 2011 is 50%. In January 2012 Centerra, earned another 20% in the joint venture and CAG's share of the joint venture is currently 30%. CAG intends to keep its 30% share of the joint venture and will continue to be involved in the further exploration of the area.

Geology

The Kara-Beldyr gold ore field was identified in 1988 by a geological survey at 1:50,000 scale. Structural geology plays the main part in control, distribution and localization of mineralization. Gold mineralization is associated with quartz diorites. Intensive postmagmatic activity led to the

formation of mineralized skarns in tectonically weakened zones and diorite-beresites with impregnated and vein-impregnation mineralization within the diorite mass.

Mineralization is hydrothermal and medium-deep in its genesis. Two mineralogical types were identified: gold-skarn and gold-beresite. The ore-hosting rocks are hydrothermally altered skarns in the former case and metasomatites (beresites, beresitized rocks) in quartz diorites in the latter case. Mineralization is inclined towards zones of major northeast-striking faults and is manifested to the maximum in areas where these faults cross tectonic fractures extending in the sublatéral, rarely north-western direction. Linear stockwork-like metasomatic ore zones are formed within these joints. The largest ore bearing zone is traced for 2.3 km along the strike and is 100-400 m wide. The Gordeyevskoye and Ezen prospects are identified within this zone.

Gordeyevskoye prospectis gold-beresite. Seven gold orebodies 80-180 m long, 1-16 m wide and with gold grades up to 18 g/t have been identified in the Gordeyevskoye prospect. The ore is oxidized on the surface. The oxidation zone is well defined to a depth of 40 m and fragmentarily defined to a depth of 85 m.

Primary ores are formed by pyrite, chalcopyrite, sphalerite, galena, arsenopyrite, enargite, arsenoferrite and sometimes by

fahlore and bismuth minerals. Free gold is observed only in quartz veins and veinlets in the form of individual grains not more than 0.5 mm in size, as well as in the form of microscopic gold precipitated inside and around the pyrite grains.

In the Ezen prospect, gold-beresite and gold-skarn mineralization are spatially combined. Gold mineralization consists of an area of mineralized garnet skarn in the southeastern end of the largest xenolite of territory genic carbonate rocks. Ore mineralization is controlled by a local zone of intense crushing and cataclastic alteration. It presents itself as hearths, impregnation of malachite, limonite with relicts of primary pyrite and chalcopyrite. The total amount of metallic minerals is 10-15%. In the polished sections and heavy mineral fractions appear solid gold, silver, pyrite, chalcopyrite, magnetite, azurite, chrysocolla, barite, sometimes even molybdenum gloss, pure copper. Gold occur in size from a few hundredths to 0.5 mm in different forms in the cracks of the non-metal mass, limonite, malachite. The most promising object in the Ezen area is beresit-gold mineralization. Gold grades in mineralized beresites in the central part of the area may be up to 34.3 g/t. The spatial and genetic combination of the two mineralization types, as well as their localization in one ore-controlling structure, allows for their evaluation as a single gold project. Two gold and 2 gold-copper orebodies up to 100 m long, up to 7 m wide and with gold grades up

to 9.5 g/t have been identified in the Ezen prospect.

Resources

CAG's part of the resources of the Kara Beldyr license, estimated in accordance with NI 43-101 is displayed in the table below.

Operations in 2011

During 2011, 10,587 meters of diamond drilling in 60 drill holes were performed in the Gord-, Ezen- and Camp zones of the Kara Beldyr license area. Based on the drilling results obtained at the end of 2011, the resource estimate for the Gord Zone shows an indicated resource of 289,000 ounces of contained gold and an inferred resource of 211,000 ounces of contained gold, a total of 500,000 ounces. The preliminary resource estimate for the Gord zone was prepared by Centerra's technical services department and has been estimated and classified in accordance with those standards defined by the Canadian Institute of Mining, Metallurgy and Petroleum, 2010 Definition Standards for Mineral Resources and Mineral Reserves (CIM) adopted by National Instrument 43-101 Standards of Disclosure for Mineral Projects (NI 43-101).

For 2012, the exploration programme for Kara Beldyr includes further diamond drilling and metallurgical tests of the Gord-, Ezen- and Camp zones of the Kara Beldyr license area.

License	Alluvial/ Hard Rock	Measured & Indicated				Inferred				License expiration
		Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz	Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz	
Kara-Beldyr	Hard Rock	1,137	2.4	2,697	86.7	1,006	2.0	1,969	63.3	2027
Total		1,137		2,697	86.7	1,006		1,969	63	

The resource numbers above represent CAG's 30% share in the Kara-Beldyr joint venture.



Crushing and stacking of ore at Tardan.



View over the Tardan Heap Leaching site.

Share capital and ownership

CAG completed a directed share issuance of 1,600,000 shares in July 2011. The proceeds from the share issuance were MSEK 28, excluding issuance costs, and the increase in share capital was MSEK 18. The issuance was made by the use of the mandate given to the board of directors by the AGM in May, 2011.

The numbers of outstanding shares as of December 31, 2011 is 17,616,987, the share capital is SEK 198,191,104 and the quota value is SEK 11.25 per share. The limits of the share capital are minimum TSEK 150,000 and maximum TSEK 600,000.

At December 31, 2011 there are 510,650,000 outstanding warrants with

the right to subscribe for 1,315,000 shares. 250,000 shares have a strike price of SEK 221.10 per share with last date of exercising in January 2012. 1,065,000 shares have a strike price of SEK 25 per share and are exercisable until August 2012.

The warrants with last date of exercising in January 2012 expired without any warrants being exercised. The warrants exercisable till August 2012 relates to a warrant program for employees of the group. The warrants in this program has not been allocated to any employees and the aim of the board of directors of CAG is to suggest to shareholders on the next shareholders meeting in May 2012 to cancel these warrants.

Changes in share capital

Event	Date	Change in number of shares	Outstanding number of shares	Quotient value/ share	Offer price/ share	Change	Closing share capital
Formation of the company	2004-02-24	1,000	1,000	100	100	100,000	100,000
New share issue *	2004-07-13	2,000,000	2,500,000	0.20	0.40	400,000	500,000
New share issue	2004-09-20	88,774	2,588,774	0.20	0.40	17,755	517,755
Issue in kind	2004-09-20	85,500,000	88,088,774	0.20	0.40	17,100,000	17,617,755
New share issue	2004-11-15	50,000,000	138,088,774	0.20	0.40	10,000,000	27,617,755
New share issue	2005-03-16	25,000,000	163,088,774	0.20	0.48	5,000,000	32,617,755
New share issue	2005-06-20	36,000,000	199,088,774	0.20	0.57	7,200,000	39,817,755
New share issue via share warrants	2005-07-12	36,756	199,125,530	0.20	0.60	7,351	39,825,106
New share issue via issue of warrants	2005-10-03	5,483,272	204,608,802	0.20	0.60	1,096,654	40,921,760
New share issue	2005-10-13	24,000,000	228,608,802	0.20	1.21	4,800,000	45,721,760
New share issue via issue of warrants	2006-01-17	2,143,677	230,752,479	0.20	0.60	428,735	46,150,496
New share issue via issue of warrants	2006-06-22	6,000,000	291,196,923	0.20	0.40	1,200,000	58,239,385
Offset share issue	2006-07-06	54,444,444	285,196,923	0.20	1.44	10,888,889	57,039,385
New share issue	2006-10-03	75,000,000	366,196,923	0.20	2.02	15,000,000	73,239,385
New share issue	2007-02-01	36,000,000	402,196,923	0.20	1.86	7,200,000	80,439,384
Offset share issue	2007-05-07	10,013,147	412,210,070	0.20	2.03	2,002,629	82,442,014
New share issue	2008-07-24	117,774,304	529,984,374	0.20	0.55	23,554,861	105,996,875
New share issue via share warrants	2008-10-03	135,388	530,119,762	0.20	0.55	27,078	106,023,952
New share issue via share warrants	2008-11-04	7,314	530,127,076	0.20	0.55	1,463	106,025,415
New share issue via share warrants	2008-12-11	660	530,127,736	0.20	0.55	132	106,025,547
New share issue	2008-12-15	497,264	530,625,000	0.20	0.20	99,453	106,125,000
Reduction of quotient value	2009-03-17	—	530,625,000	0.05	—	-79,593,750	26,531,250
Issue in kind	2009-03-17	3,000,000,000	3,530,625,000	0.05	0.06	150,000,000	176,531,250
Reversed split	2009-07-15	-3,512,971,875	17,653,125	10.00	—	0	176,531,250
Reduction of share capital	2010-09-01	—	17,653,125	1.125	—	-156,671,484	19,859,766
New share issue	2010-09-01	139,492,384	157,145,509	1.125	1.60	156,928,932	176,788,698
New share issue	2010-09-14	1,732,616	158,878,125	1.125	1.60	1,949,193	178,737,891
New share issue	2010-10-08	1,291,742	160,169,867	1.125	1.7031	1,453,210	180,191,101
New share issue	2010-10-08	3	160,169,870	1.125	1.125	3	180,191,104
Reversed split	2010-10-20	-144,152,883	16,016,987	11.25	—	—	180,191,104
New share issue	2011-07-28	1,600,000	17,616,987	11.25	17.50	18,000,000	198,191,104

* Reduction of par value per share to SEK 0.20.

Largest shareholders

The 17 largest shareholders in Central Asia Gold AB (publ) at March 31, 2012, updated for known changes

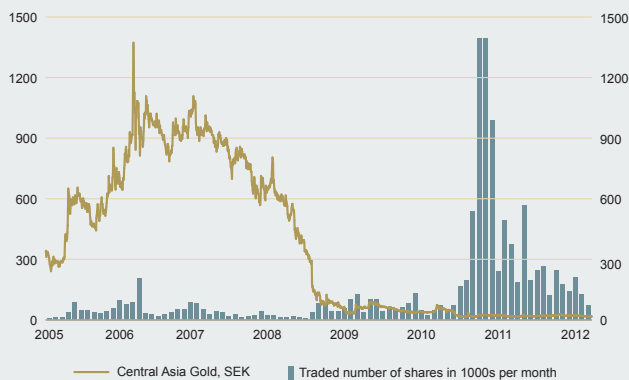
Shareholder	Number of shares	% share of ownership
Bertil Holdings Ltd	9,314,968	52.87
Swiss Life (Liechtenstein) AG	1,095,000	6.22
Cgml Ipb Customer Collateral AC	929,665	5.28
Gkl Growth Capital AB	796,532	4.52
Swiss Life (Liechtenstein) AG	500,000	2.84
Six Sis AG, W8IMY	416,185	2.36
Clearstream Banking S.A., W8IMY	386,735	2.20
Ellge kapital i Stockholm	370,287	2.10
Royal Skandia Life	314,379	1.78
4100, Victory	314,166	1.78
Dunross & Co Aktiebolag	285,000	1.62
Svea Lands. S.A	264,363	1.50
Banque Öhman S.A.	200,000	1.14
KL Capital Aktiebolag	189,797	1.08
Försäkringsaktiebolaget Avanza Pension	154,244	0.88
Plotek, Bernt	122,500	0.70
Gibson, Stuart	101,206	0.57
Subtotal for the 17 largest owners	15,755,027	89.44
Other appr. 3,400 shareholders	1,861,960	10.56
Total number of shares outstanding before dilution	17,616,987	100.00

Source: Euroclear AB and Central Asia Gold AB

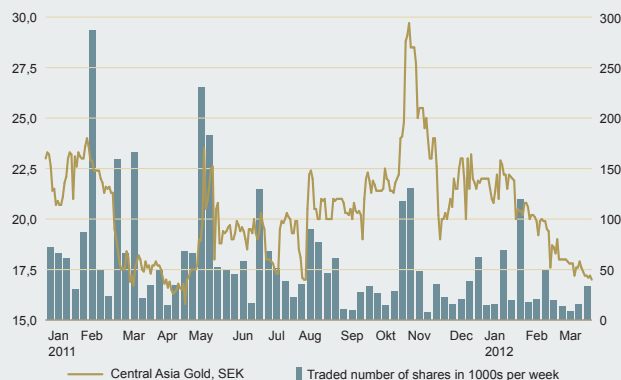
Share price

The CAG share is listed on Nasdaq OMX First North Premier (ticker CAG). The share price and daily numbers of shares traded are displayed in the graf below.

Share price and daily number of shares traded in Central Asia Gold March 28, 2005 – March 31, 2012



Share price and daily number of shares traded in Central Asia Gold January 2, 2011 – March 31, 2012



Operational key ratios

The key ratios refer to the group.

	2011	2010	2009	Definitions
Profitability				
Ore processing (thousands of tonnes)	260.2	174	20	The quantity of treated ore within the mine-area during the period (thousands of tonnes)
Gold sands processing (thousands m3)	88.7	713	935	The volume of gold sands processed during the period
Gold production (oz) during the period	13,182	23,470	21,636	Gold production obtained during the period (troy oz)
Gold sales during the period (oz)	12,417	23,786	21,411	Actual sold gold production during the period (troy oz)
Average realized gold price (USD/oz)	1,610	1,257	951	Average price received during the period (USD/oz)
Return on equity (%)	-39.0%	2.6%	86.4%	Net profit/loss for the period as a percentage of average equity during the period, including minority holdings
Capital structure				
Equity, TSEK	308,031	405,511	200,745	Total equity at the end of the period, including non-controlling interests
Interest-bearing liabilities, TSEK	243,219	118,133	140,594	Total interest-bearing liabilities at the end of the period
Equity ratio (%)	45.6%	63.6%	44.5%	Equity, including non-controlling interests, as a percentage of the balance sheet total
Cash flow and liquidity				
Cash flow before investments, TSEK	-42,694	-95,362	4,586	Operating profit/loss plus depreciations, minus the change in working capital
Cash flow after investments and financing, TSEK	-11,662	-838	22,662	Operating profit/loss plus depreciations minus the change in working capital and investments and after financing
Liquid assets, TSEK	10,995	22,230	22,732	Bank deposits and cash at the end of the period
Investments				
Capital investments	141,727	86,737	80	Net investments in material fixed assets (after adjustment for any disinvestments)
Employees				
Average number of employees during the period	728	916	932	
Share data				
Number of outstanding shares before dilution at the end of the period	17,616,987	16,016,987	1,765,312	Number of issued shares at the end of the period, excluding the effect of outstanding warrants and any incentive options
Average number of outstanding shares during the period before dilution	16,652,603	5,026,107	1,720,246	Number of shares at the end of the period, including outstanding warrants with a redemption price lower than current stock exchange price.
Number of warrants outstanding	510,650,000	510,650,000	2,500,000	Number of non-exercised warrants at the end of the respective period.
Quotient value, SEK *	11.25	11.25	10	Each share's proportion of the total share capital
Earnings per share, SEK	-7.17	1.58	85.37	Net profit/loss after tax divided by the average number of outstanding shares during the period
Equity per share, SEK	17.48	25.23	110.13	Total equity, including non-controlling interersts, 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	22	23	12.9	Latest market price paid for the shares on the last trading day of the respective period.

The Board of Directors and Management

BOARD OF DIRECTORS



Lars Guldstrand

Chairman of the Board, elected 2009. Lars Guldstrand is a Swedish citizen, born 1957, with more than 25 years' experience in international leadership and investment in the telecom, media and technology sectors. He has also worked with corporate turnarounds and reorganisations, and M&A activities in a number of other areas, including the finance and Internet sectors.

During his career Lars Guldstrand has held leading positions in a number of privately owned and publicly

listed companies in Europe and the U.S., including Eniro AB. Lars Guldstrand is a Partner and Chairman in GKL Growth Capital AB, Eco Energy, Scandinavia Centum Finance Services International AB and KMW Energi AB.

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



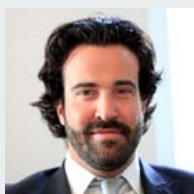
Preston Haskell

(See presentation under group management below)



Niclas Eriksson

Niclas Eriksson is a director of the Net Entertainment, King City Real Estate AB, Vasastaden Holding AB, Vassholmen AB and Isogenica Ltd. Niclas holds a Master degree in Finance. Niclas is a Swedish citizen, born 1964.



Tom Baring

Tom Baring has over 10 years of experience within the alternative investment management industry, the last 4 of which were spent focused on the Russian market. Tom is resident in Moscow and currently

manages the investment arm of a large family office PHH Group. Tom Baring, a British citizen, born in 1979.



Nick Harwood

Nick is currently a Sloan Fellow at the MIT Sloan School of Management. Prior to this he was a partner and Deputy Head of Troika Dialog's Global Markets Business based in Moscow. He has previously held several senior positions at Citigroup Global Markets in London and Johannesburg, ING Barings in New

York, NatWest Markets and Fleming Martin in London. Nick is a non-executive Director of the Red Fort Partnership, a specialist mining investment fund. Nick Harwood holds a Bachelor of Business Science (Finance) from the University of Cape Town in South Africa. Nick is a British citizen, born in 1968.



Gordon Wylie

Gordon has 35 years' experience in the Gold Mining Industry in both mining and exploration geology. Between 1997 and 2005 Gordon was part of Anglo-Gold Ashanti's senior management team where he was responsible for the company's global exploration programs covering some 23 countries and 5 continents worldwide. Gordon has previous experience as a non-executive director with the AIM listed Trans Siberian Gold and OXUS Gold. He was until the end of 2009 vice chairman of Continental Gold. He is a founder and still non-executive chairman of Lydian Interna-

tional having gold assets in Armenia and base metal assets in Kosovo, and which listed on the TSX in 2007. He is also a non-executive director of Avocet Mining Plc, a LSE and Oslo Stock Exchange listed company and Llave de Oro a private company with assets in Colombia. Born in Glasgow, Scotland in 1952, he holds a Bachelor's degree with Honours in Geology from the University of Glasgow (1975), a Management Diploma from UNISA South Africa (1989) and a Postgraduate Diploma in Mining Engineering from Wits University South Africa (1999).

GROUP MANAGEMENT



Preston Haskell

Chief Executive Officer, Head of Group, and Board member of Central Asia Gold AB since 2009. Preston Haskell is Saint Kitts and Nevis citizen, born 1966, and has been active as a businessman in Russia since the early 1990s. Haskell is a Board member of Fleming Family and Partners Real Estate Development Fund Ltd and is the owner with active operational management in LLC Haskell Group.

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

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

Shares in Central Asia Gold: 9,314,968 (through companies). Warrants in Central Asia Gold: 0



Johan Arpe

Chief Financial Officer, Johan is a Swedish citizen born in 1973. He has a Masters degree in Business and Administration from Uppsala University and has worked as an authorized public accountant at PwC, RSM Ranby Björklund and Deloitte.

Johan Arpe is the CFO of Central Asia Gold since spring 2011 and is located at the company's office in Stockholm.

Shares in Central Asia Gold: 23,800. Warrants in Central Asia Gold: 0

AUDITORS



Öhrlings PricewaterhouseCoopers, Martin Johansson

CAG's auditors are Öhrlings PricewaterhouseCoopers, represented by authorised public accountant, Martin Johansson, born 1967. Martin Johansson has been the company's auditor since 2010.

Directors report

The Board of Directors and the Chief Executive Officer of Central Asia Gold AB (publ) (hereafter referred to as "CAG AB") hereby submit the annual financial statements for financial year 1 January – 31 December 2011.

Group structure and operations

CAG AB is incorporated in Sweden, with mining operations in Eastern Siberia, Russia. As of today, the Group is comprised of the Swedish Parent Company, CAG AB, which controls nine subsidiaries in Russia and participates in a joint venture incorporated under the laws of Cyprus. The Russian subsidiaries are limited liability companies ("LLC"). The operations in-

volve exploration and production of gold, primarily in the Tyva, and Zabaikalsk regions in eastern Siberia in Russia.

From March 29, 2005 until July 2010, CAG AB was publicly listed on the Nordic Growth Market stock exchange in Sweden and since July 19, 2010, CAG AB is listed on the Swedish stock exchange NASDAQ OMX First North Premier in Sweden. The number of shareholders as of December 31, 2011 was approximately 3,500.

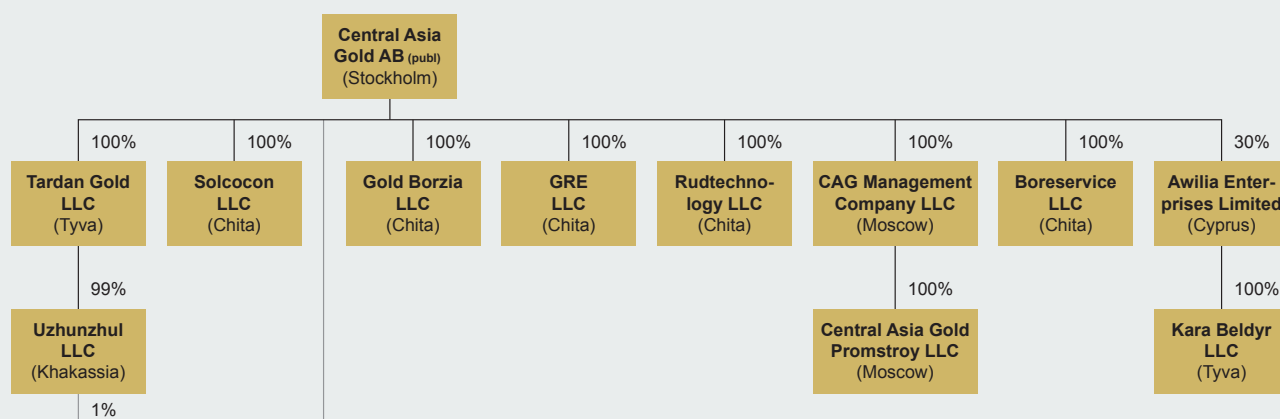
The operations of the Group are performed via the subsidiaries and a joint venture. The Group's main assets comprise a number of mineral mining permits (licenses) held by

the various subsidiaries. The license areas operated are Tardan, Staroverenskaya, Uzhunzhul and Kara Beldyr. Kara Beldyr is operated through a joint venture with the Canadian company, Centerra Gold Inc., CAG's ownership in the joint venture as at December 31, 2011 is 50%. In January 2012 Centerra, earned another 20% in the joint venture and CAG's share of the joint venture is currently 30%. The other license areas are wholly owned by CAG.

The table below shows the group structure of CAG as of April 2012.

Company	Location	Operations	Ownership
Central Asia Gold AB	Stockholm, Sweden	Holding company, supports the subsidiaries with financing, investor relations and strategic decisions etc.	
Subsidiaries			
LLC Tardan Gold	Kyzyl, Republic of Tyva, Russia	License holder and operator of production and exploration at the Tardan license area.	100% owned by CAG AB
LLC GRE 324	Chita, Zabaikalsk region, Russia	License holder of the Staroverenskaya license area.	100% owned by CAG AB
LLC Solcocon	Chita, Zabaikalsk region, Russia	Owner of the Solcocon heap leaching plant and related equipment.	100% owned by CAG AB
LLC Rudtehnologiya	Krasnoyarsk, Zabaikalsk region, Russia	Operator of the production at the Solcocon heap leaching plant and the exploration at the Staroverenskaya license area.	100% owned by CAG AB
LLC Gold Borzha	Krasnoyarsk, Zabaikalsk region, Russia	Operator of the production at the Gold Borzha alluvial production unit on the Staroverenskaya license area.	100% owned by CAG AB
LLC Uzhunzhul	Abakan, Republic of Khakassiya, Russia	License holder and operator of the exploration at the Uzhunzhul license area.	100%, owned by LLC Tardan Gold
LLC Management Company CAG	Moscow, Russia	Management company for the Russian subsidiaries.	100% owned by CAG AB
LLC CAG Promstroy	Moscow, Russia	Dormant company, was used as general contractor for the construction of the Tardan heap leaching plant.	100%, owned by LLC Management Company CAG
LLC Burservice	Chita, Zabaikalsk region, Russia	Dormant company, used to perform drilling services.	100% owned by CAG AB
Joint Venture			
Awilia Enterprises Ltd.	Nicosia, Cyprus	Joint venture company with Centerra Gold Inc., owner of the operating JV company, LLC Kara Beldyr.	30% owned by CAG AB*
LLC Kara Beldyr	Kyzyl, Republic of Tyva, Russia	License holder and operator of the exploration at the Kara Beldyr license area.	100% owned by Awilia Enterprises Ltd.

* Ownership as of the reporting date. At December 31, 2011, CAG AB's ownership was 50%.



The organisational structure of the Central Asia Gold Group as at spring 2012

CAG Gold Resources

The registered gold resources of CAG as at December 31, 2011, are displayed in the table below.

NI 43-101-Compliant Gold Resources

License Deposits	Alluvial/ Hard Rock	Measured & Indicated				Inferred				License expiration	
		Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz	Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz		
Kara-Beldyr										2027	
Kara-Beldyr*	Hard Rock	1,137	2.4	2,697	86.7	1,006	2.0	1,969	63.3		
Total		1,137		2,697	86.7	1,006		1,969	63		

* The resource numbers above represent CAG's 30% share in the Kara-Beldyr joint venture.

GKZ-Compliant Gold Resources

License Deposits	Alluvial/ Hard Rock	C1				C2				License expiration	P1/P2** 000 kg
		Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz	Ore, 000 t.	Au, g/t	Au, kg	Au, 000 oz		
Tardan										2028–2032	22
Tardan deposit	Hard Rock	1,454	3.75	5,454	175.4	524	4.45	2,332	75.0		
Tardan exploration licence	Hard Rock					270	6.14	1,656	53.2		
Staroverenskaya										2029	132
Kozlovskoye	Hard Rock	262	8.77	2,297	73.8	869	7.78	6,764	217.5		
Bogomolovskoye	Hard Rock	20	2.95	59	1.9	2,141	3.48	7,460	239.8		
Borzya	Alluvial	166	1.34	222	7.1	1,036	1.41	1,456	46.8		
Uzhunzul	Hard Rock									2031	26
Total		1,902		8,032	258.2	4,840		19,668	632.3		180

** Based on in-house calculations.

CAG production in 2011

On the Tardan license area, CAG has a gravitational plant and are in the process of finalizing the permitting and commissioning of the newly build heap leaching plant. On the Staroverenskaya license area CAG has the Solcocon heap leaching plant and the Gold Borzja alluvial production unit. The Uzhunzhul license area, as well as Kara Beldyr, is exploration licenses without production facilities. The production in 2011 by each production unit is shown in the table below.

Production unit	License area	Alluvial/Hard Rock	Production 2011 (kg)	Production 2010 (kg)*
Tardan (Gravitational)	Tardan	Hard Rock	96	160
Tardan (Heap Leaching)	Tardan	Hard Rock	–	–
Solcocon (Heap Leaching)	Staroverenskaya	Hard Rock	238	171
Sub total, Hard Rock			334	331
Gold Borzja	Staroverenskaya	Alluvial	76	235
Total			410	566

* Due to CAG's sale of all its shares in the alluvial producing subsidiary LLC Artelj Lena in July 2011, the production from Artelj Lena has been excluded from the table above. In 2010 the production at Artelj Lena amounted to 164 kg and the total production for 2010 was 730 kg.

Tardan

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

As of December 31, 2011, the resources of the Tardan deposit license contain 7.8 tonnes of gold amenable for open-cast mining and heap leaching.

Production

In 2011, 96 kg (160 kg) of gold was produced at the Tardan gravitational plant. The lower production compared to last year is due to lower grade of ore used in the production in 2011 and the main focus of operations at Tardan being to prepare ore for the heap leaching production that will commence upon permitting and commissioning of the new heap leaching plant.

The yearly production capacity at Tardan when the heap leaching plant is commissioned is 1,000–1,200 kg per year. The forecasted production volume in 2012 is 400–600 kg, due to the delayed start of the heap leaching plant and the planned ramp up pace in production after commissioning of the plant.

Heap leaching project

The main focus of CAG's operations in 2011 has been to complete the construction of the Tardan heap leaching plant and get all the permits needed to commission the plant. Due to non-performance in the project management for the project during 2010 and the first half of 2011, the company has experienced delays and cost overruns in the project, but the construction of the phase I (absorption) was successfully completed in the third quarter of 2011 and the permit to use cyanide was received on December 28 2011. The receipt of the cyanide permit enables CAG to start the phase I of the production (absorption) through irrigation of the heaps.

Phase II (desorption) permitting is in progress and the estimation is that the plant will be fully permitted during the summer 2012. In early February 2012, a test launch of the desorption circuit at Tardan was started with results being positive and the management and engineers have thereby received a confirmation that the

desorption technology is set up and ready and that both copper and gold desorption cycles are working in accordance with the project parameters.

Exploration

Due to the delays in the construction and permitting of the heap leaching plant at Tardan, the exploration in 2011 was less than initially planned. During 2011 the assay of the geochemical samples from 2010 has continued and the core drill rigs and other equipment has been refurbished and prepared for the 2012 exploration programme. A new chief geologists was hired in the third quarter of 2011 and the geological team is now prepared to execute the 2012 exploration programme that will target known mineralized zones within the Tardan deposit and the Tardan license area with the purpose to extend the lifetime of the Tardan plants.

Staroverenskaya

The Staroverenskaya exploration and mining license area is 220 km², situated in the Zabaikalsk region, 200 km from the railway station in the village Borzuya.

As of December 31, 2011 the registered resources at the Staroverenskaya license area contains 9.3 tonnes of gold amenable for open-cast mining at the Kozlovskoye deposit and another 7.5 tonnes at the Bogomolovskoye deposit.

Production

Solcocon

The Solcocon heap Leaching plant is located on the Staroverenskaya license area. A major repair and reconstruction of the Solcocon plant was undertaken during 2010 whereby the Adsorption-Desorption capacity of the plant was significantly increased. In 2011, 238 kg (171 kg) of gold was produced at the Solcocon plant, representing an increase of 39% compared to 2010.

While the production volumes at Solcocon have been good during 2011, the production unit has experienced problems with the profitability and to find enough oxidized ore for full production capacity. The local management and the production engineers at Solcocon are currently evaluating a technology to include semi-oxidized ore in the production process. If this test turns out successfully, Solcocon will have an additional 500,000 tonnes of ore suitable for heap leaching production.

Meanwhile, management is also evaluating other options for Solcocon and in the short to medium term; profitability is the main focus for the production unit. The production target for 2012 is 200–250 kg.

Gold Borzuya

Also located on the Staroverenskaya license area is the alluvial production unit, Gold Borzuya that produced 76 kg (235 kg) of gold in 2011. The significantly reduced production volumes in 2011 are due to lower gold grades and poor weather conditions during the production season.

Since the main focus of CAG is on hard rock production and the alluvial operations had a significantly negative impact on the operating result for 2011, CAG will outsource the operations of Gold Borzuya to a local alluvial producer during 2012. Through this agreement, CAG will retain a royalty income on the gold produced by the operator, which will provide a profitable operation and reduce the risks for CAG. The planned production volume for 2012 at Gold Borzuya is 150 kg.

Exploration

During 2011 the exploration at the flanks of the Podgornoye ore body at the Bogomolovskoye deposit was completed and the local management is currently evaluating the quality of the drilling works and lab tests before submitting the resource calculation to the state reserve committee. Additionally, an internal exploration program at the Kozlovskoye deposit aimed at confirming the historical resource calculations was conducted in 2011, and received a good correlation with the existing assay results.

The main focus of the exploration program for 2012 for the Staroverenskaya license is to provide the Solcocon heap leaching plant with the reserve base needed for its production.

Kara-Beldyr

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

During 2011, Centerra spent approx. 3.2 MUSD (21 MSEK) on exploration on Kara Beldyr. 10,587 meters of diamond

drilling in 60 drill holes were performed in the Gord-, Ezen- and Camp zones of the Kara Beldyr license area. Based on the drilling results obtained at the end of 2011, the resource estimate for the Gord Zone shows an indicated resource of 289,000 ounces of contained gold and an inferred resource of 211,000 ounces of contained gold, a total of 500,000 ounces. The preliminary resource estimate for the Gord zone was prepared by Centerra's technical services department and has been estimated and classified in accordance with those standards defined by the Canadian Institute of Mining, Metallurgy and Petroleum, 2010 Definition Standards for Mineral Resources and Mineral Reserves (CIM) adopted by National Instrument 43-101 Standards of Disclosure for Mineral Projects (NI 43-101).

In January 2012 Centerra completed the phase 2 of the joint venture agreement with CAG by having invested a total amount of 6.5 MUSD (approx. TSEK 43,550) in exploration on the Kara Beldyr license area and thereby earned a total interest of 70 % in the Kara-Beldyr Joint Venture. CAG intends to keep its 30% share of the joint venture and will continue to be involved in the further exploration of the area.

For 2012, the exploration programme for Kara Beldyr includes further diamond drilling and metallurgical tests of the Gord-, Ezen- and Camp zones and the total budget for the exploration work is 3 MUSD (approx. MSEK 20). Centerra has set a target of 1.5 million oz of reserves for Kara-Beldyr by the end of 2013.

Uzhunzhul

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

During 2011, a geochemical sampling program of 100x100 m grid was carried out on the southern part of the Uzhunzhul license. 5,085 samples were selected and prepared for sending to the lab. Overall, 13,500 soil samples were taken in 2010 and 2011. In 2011, CAG geologists studied selective geochemical anomalies identified in 2010, and additional 24 grab samples were selected from the prospective anomalies.

For 2012 an exploration program has been designed with the expected resource identification of 3 tons Au (P1+C2). The pro-

gram includes geochemical assays of 5,100 samples (2011) and 3,500 samples (2007), 10 km geophysics on anomalies, core storage construction, 4 km of trenching and 1.5 km of diamond drilling.

Significant events during the year

Additional 9 tones of gold reserves approved

In May 2011, the State Reserve Commission of the Zabaikals Region (GKZ) approved an additional 9 tones of gold reserves in the categories C1 and C2, at the Kozlovskoye deposit on the Staroverenskaya license area.

Sale of the subsidiary LLC Artelj Lena

In July 2011, CAG completed the sale of 100% of the shares in the alluvial producing subsidiary LLC Artelj Lena in accordance with the group's strategy to focus on hard rock mining. The total consideration for the shares was 100 MRUB (approx. MSEK 22).

Directed rights issue

On July 28, 2011, CAG completed a directed rights issue of 1,600,000 shares to a number investors, whereby 28 MSEK was raised.

Receipt of Cyanide permit

On December 28, 2011 CAG received the cyanide permit for the Tardan heap leaching plant, allowing CAG to start phase 1 (absorption) of the production at the plant.

Earnings and financial position for the group

Revenue and earnings

The net result attributable to the owners of the Parent Company for the Group in 2011 amounted to TSEK -119,325 (TSEK 7,964) corresponding to SEK -7.17 per share (SEK 1.58).

Revenue from gold sales in 2011 amounted to TSEK 131,965 (TSEK 214,037) and the change in work in progress and finished goods amounted to TSEK 42,633 (TSEK 15,097). The total volume of gold produced during the year was 410 kg (730 kg). For 2010, the production included 164 kg from the alluvial production unit Artelj Lena that was sold in 2011. The production from comparable units in 2010 amounted to 566 kg and the decrease in revenue from gold sales is due to lower volumes of gold sold at Tardan and Gold Borzya in 2011. For Tardan, the main focus of the work performed during 2011 has been on preparing ore for the heap

leaching production. At Gold Borzya, bad weather conditions during the production season and lower gold grades have caused lower production levels and higher production costs than last year, hence causing a significant negative impact on the consolidated operating result for the reporting period. For the 2012 production season, CAG has signed an operational outsourcing agreement with a local alluvial producer regarding the production at the Gold Borzya production unit that is expected to significantly increase the efficiency and profitability of its operations in 2012.

Other operating income for the year amounted to TSEK 18,175 (TSEK 35,838) consisting mainly of gains from the disposal of subsidiaries, LLC Artelj Lena in 2011 and LLC Artelj Tyva and LLC Kara Beldyr in 2010. A total of TSEK 4,112 of exploration costs was capitalised during 2011 (TSEK 18,153).

Operating expenses for 2011 amounted to TSEK 298,079 (TSEK 249,346) and the operating result was TSEK -101,164 (TSEK 33,779). The operating expenses are affected by write-downs of TSEK 37,766 (TSEK 0). TSEK 21,165 (TSEK 0) of the write-downs relate to weaknesses in construction work performed at the Tardan plant and TSEK -16,601 (TSEK 0) is a write down of work in progress for the production units Gold Borzya and Solcocon, due to very high costs of production during the 2011 production season and the uncertainty of production volumes in 2012.

The operating expenses are also higher compared to last year due to significantly increased production costs at the company's remaining alluvial production unit Gold Borzya and due to increased activity at the Solcocon production unit compared to last year. In addition, comprehensive preparation work performed at Tardan to prepare ore for the heap leaching production has led to an increase in operating expenses for the reporting period. The company is actively reviewing its costs in order to improve efficiency and profitability of its operations. When the heap leaching plant at Tardan is fully commissioned and production volumes increase, the company estimates that both production costs and administrative costs per unit produced will be significantly lower than the costs for 2011, where the cost base has been adapted for significantly higher production volumes than what has been reached.

Net financial items amounted to TSEK -27,101 (TSEK -16,671) for the year. The increase is mainly related to exchange rate losses on liabilities denominated in USD.

Total income tax for the year was TSEK 7,689 (TSEK -9,420) that predominantly relates to changes in deferred taxation. The net result for the year attributable to non-controlling interests was TSEK -1,071 (TSEK -276), which relates to the subsidiary LLC Artelj Lena that was sold during the year.

Investments, liquidity and financing

During 2011, the Group invested TSEK 4,112 (TSE 18,153) in intangible fixed assets and TSEK 141,727 (TSEK 88,232) in tangible fixed assets. The main portion of the investment in tangible fixed assets refers to the on-going construction of the heap leach plant at Tardan.

The net cash flow from loans received and loans repaid in 2011 amounted to TSEK 127,148 (TSEK 104,161). In 2011, the total amount of loans received from related parties (related to the ultimate controlling party, Preston Haskell) amounted to TSEK 159,931. And proceeds from share issuance, net of issuance costs, amounted to TSEK 27,892 (TSEK 86,803).

Consolidated cash in the Group as of December 31, 2011 amounted to TSEK 10,995 (TSEK 22,230). The tight amortization schedules of the loans granted from Svyaz-Bank, especially for the loan regarding the construction of the Tardan heap leaching plant, were the construction and commissioning of the plant has suffered delays, has put the company in a stressed financial situation. The two bank loans were refinanced with Svyaz Bank in December 2011 and February 2012, and will be amortized during July-December 2012. Whilst the refinancing of these bank loans together with the financing received from main shareholder has solved the immediate refinancing need, there is still a need to find a more sustainable financial solution that suits the development plans for the company, and the board of directors is continuously working to secure the long term financing for the group.

Significant risks and uncertainties

As a relatively small mining company in its early stages operating in Russia, Central Asia Gold AB is exposed to significant risks. Certain of these are specific to the

industry, whilst others are general or related to the business environment in Russia. The main points of uncertainty as assessed by the Board of directors are described below.

The board of directors of CAG believes that the information presented in this report is the most accurate based on the judgments made by the board of directors and management, based on their knowledge and experience.

Operating Environment of the Group

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

Geological risks

The recoverable gold reserves of a gold exploration and production company are influenced by geologic and economic factors. The estimation of reserves is, therefore, at all times dependent on the international gold price, costs associated with the extraction of the gold, etc. Therefore, the estimated gold reserves of any gold company may change at any point in time.

Legal environment

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

Environmental risk

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

During 2011, all subsidiaries of CAG AB, in accordance with the Russian legislation, used a system to monitor the quality of air and water located near production facilities. Environmental production safety measures are the responsibility of environmentally trained professionals.

The CAG Group periodically evaluates its obligations under Russian environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material.

In March 2011, the Group was given a penalty from environmental authorities in Russia of MRUR 1 due to the use of cyanide prior to the approval of the cyanide permit at Tardan. The permit to use cyanide at Tardan was received in December 2011.

Environmental policy

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

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

Financial risk management

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

The Group tries to mitigate these risks by ensuring that the Board and the Company management have the relevant compe-

tence. Consequently, the Company works proactively by carrying out suitable measures to counteract and manage the risks listed above. In addition, the Group obtains advice from consultants when required. The Company does not use derivative instruments to hedge the financial risks.

The Group's assessed risk exposure as regards to financial risks is described further in note 23 on page 58 of this report.

Financial policy and other information

Capital structure

Issues concerning capital risk, optimum capital structure and the cost of capital are central in all companies. The Board of CAG always tries to optimise the cost of capital, however, it must also take into account the fact that, at present, the Group is at an early stage of development and the equity/assets ratio must, consequently, be maintained at a relatively high level. The Board of Directors currently considers that the equity ratio of the Group, at least during the start-up phase (before large-scale production has started) shall be at least 50%. As at year-end 2011, the Group's equity/assets ratio, is 45.6%, which is not considered to be satisfactory. The board of directors of CAG are working actively to strengthen the balance sheet and the solidity of the group.

Liquidity management

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

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

Dividend policy

The Board of Directors of Central Asia Gold believes that distribution of divi-

dends is important and shall be aimed for in the longer term. During the start-up stage of the Group, i.e. for at least the next few financial years, priority must be given to achieving positive cash flow. In the longer term, an attractive dividend is to be distributed, taking into consideration such factors as the financial position of the Group and investment requirements.

Tax situation

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

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

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

Salaries paid in Russia are subject to social security contributions of 34% of the salary until the accumulated yearly salary for each employee reaches 463 TRUR (approx. 102 TSEK). For salaries above this amount, a flat rate of 2% is paid for social security contribution charges.

Foreign currency translation

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

The Group's revenue is mainly denominated in US dollars ("USD"), as the international gold price is expressed in USD. The gold that CAG produces is sold in Russia and translating the global gold price in USD into RUR at the current exchange rate at the time of the sale hence derives the gold price received by CAG upon the sales. A significant strengthening of the RUR against the USD is, therefore, negative for the CAG Group. However, since the Group's reporting currency is SEK, while revenues and most part of the costs are incurred in RUR, the RUR's movement against the SEK also impacts the accounts of CAG. In general, the Group's surplus liquidity, if any, is held in RUR and in SEK.

Related party transactions

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

Gold price hedging

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

The market price of gold is one of the most significant factors in determining the profitability of CAG. During 2011, the average global price of gold increased to USD 1,572 per oz from USD 1,226 per oz in 2010, representing an increase of 28%. The record high gold price of USD 1,896 per oz was reported in September 2011.

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

As a rule, CAG refrains from hedging its own gold production via the options and futures markets. Hedging may, however, occasionally be stipulated as a requirement by lending banks. In 2011, none of the creditor banks has required gold price hedging.

Planning ahead

CAG estimates that the total production of gold from the Group's production units in 2012 will be in the range of 700–900 kg, of the total production 400–600 kg is expected from Tardan, 200–250 kg from Solcocon and approx. 150 kg from Gold Borzya. The full year production capacity at Tardan when the heap leaching plant is commissioned is 1,000–1,200 kg.

Financial situation and going concern

The tight amortization schedules of the bank loans received has put the company in a stressed financial situation. The two bank loans were refinanced in December 2011 and February 2012, and will be amortized during the period July–December 2012. Whilst the refinancing of these bank loans together with the financing received from main shareholder has solved the immediate refinancing need, there is still a need to renegotiate the terms of the current loans received during 2012 and to find a more sustainable financial solution that suits the development plans for the company. The board of directors is continuously working to secure the long term financing for the group.

As of December 31, 2011, the Board of directors of CAG considers the Group to have sufficient working capital for the financing of the business operations during the next twelve months and the intention is to continue the normal course of the Groups business.

The Board of CAG takes into consideration the following factors in its financial planning: existing cash assets, cash flow from the subsidiaries' gold sales, as well as existing loans and the prospect of secured credit commitments from various commercial banks.

Significant events after the reporting period

Kara Beldyr joint venture

In January 2012, Centerra Gold Inc. ("Centerra") completed the second phase of investments in the Kara Beldyr joint venture and thereby earned another 20% ownership in the joint venture. In total, Centerra has invested 6.5 MUSD (approx. TSEK 43,550) into the project. CAG's share of the Kara Beldyr joint venture is after the completion of phase 2, 30%. CAG intends to keep this share and participate in the future development of the license.

In February 2012, Centerra presented a preliminary resource estimation for the Gord Zone of the Kara Beldyr license prepared in accordance with NI 43-101, with an indicated resource of 289,000 oz of gold and an inferred resource of 211,000 oz of gold.

Changes in the board of directors of Central Asia Gold AB (publ.)

The board member Gordon Wylie, resident in South Africa, has for personal reasons left the board of directors of CAG as of April 24, 2012. Gordon Wylie will not be replaced, a new board of directors will be appointed on the AGM on May 24, 2012.

New bridge loan from related party

On April 25, 2012, CAG AB received another short-term bridge loan of up to MUSD 4 (approx. MSEK 27) from Golden Impala Ltd., a company related to the majority shareholder Preston Haskell. The interest rate on the loan is 18% p.a., to be paid in quarterly arrears, and the principal amount matures on October 1, 2012.

Guidelines on remuneration to the company management in the CAG group

During the Annual General Meeting on May 31, 2011, the guidelines for remuneration to the Company management were approved.

The remuneration to the Group's management, according to the guidelines, may be comprised of the following compounds: (i) fixed salary, (ii) variable pay, (iii) long-term incentives and (iv) insurable benefits. The variable salary shall be related to the Company's return on production, reserves and production goals, and specific goals within each executive's area of responsibility. Variable salary shall be paid annually and shall be equal a maximum of one annual base salary. The Board of Directors is entitled to deviate from these guidelines if, in individual cases, there is a special reason to do so. During 2011, no deviations from the guidelines have been made.

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

The Board of directors proposes that the principles for remuneration to the Company management is unchanged from the guidelines approved last year, and that the Annual General Meeting on May 24, 2012, approves these proposed guidelines for remuneration to senior executives.

Corporate governance report

Corporate governance concerns the regulations and structure existing to govern and manage a company in an effective and controlled manner. Corporate governance is primarily aimed at meeting the shareholders' requirements with regard to returns on their investment and to provide all interested parties with comprehensive and correct information about the company and its development. The governance of CAG 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 and with business operations in eastern Siberia, Russia. CAG was formed in 2004 and listed on the NGM Equity, Nordic Growth Market on March 29, 2005. Since July 19, 2010 the CAG's share is listed at the Swedish stock exchange NASDAQ OMX First North. The shares are traded under the abbreviation, "CAG". CAG has applied the Swedish Corporate Governance Code (the Code) since July 1, 2008, except for the deviations detailed below. The Code is based on the principle of "comply or explain", which implies that companies applying the Code can deviate from the specific rules, but they must provide an explanation for such deviation. Governance, management and control responsibilities for CAG are divided between the shareholders at the Annual General Meeting of Shareholders, the Board of Directors and the Chief Executive Officer.

Annual General Meeting of the Shareholders

The shareholders' right to decide on CAG's business is exercised at the Annual General Meeting of shareholders ("AGM"), which is a company's highest decision-making body.

2011 AGM

CAG's 2011 AGM was held on Monday, May 31, 2011 in Stockholm. The minutes from this meeting are available on www.centralasiagold.se.

The following principal resolutions were adopted:

- The Board of Directors and the Chief Executive Officer were discharged from liability for the past financial year.

- The Board members Lars Guldstrand, Preston Haskell were re-elected to the Board for 2011 and Gordon Wylie, Nick Harwood, Niclas Eriksson and Tom Baring were elected.
- Lars Guldstrand was re-elected Chairman of the Board.
- The Board fees were established for Gordon Wylie, Nick Harwood, Tom Baring at TSEK 200 each and TSEK 250 to the Chairman of the Board Lars Guldstrand. The Board member and the CEO Preston Haskell will not receive any compensation.
- Remuneration to the Company's auditor is paid according to the invoiced amount according to agreement.
- The AGM approved the shareholders' proposal for the establishment of principles for appointing the Nomination Committee.
- The AGM approved the Board's proposal on adoption of the guidelines for remuneration to the executive management executives.
- The AGM resolved to amend the articles of association in accordance with the Board of Directors' proposal.
- The AGM authorized, for the period until the next Annual General Meeting on one or more occasions, with or without preferential rights for shareholders, issue new shares, warrants and/or convertibles. Decisions related to the authorization could result in increase of the capital by a maximum of 18,000,000 SEK, representing a maximum of 1,600,000 shares of the company, upon full exercise of the warrants and convertible bonds issued under the authorization and prior to any conversion in accordance to its terms. The share issue was authorized for financing of acquisitions of a company, part of it or assets, which the board deems to be of value for the company, as payment substitution for the company's strategic partnerships, raise of the capital either for such acquisitions, partnerships or other investments or for strengthening of the company's financial position, if necessary, and for the implementation of financial restructuring, such as a loan repayment.

2012 AGM

The Annual General Meeting of the Shareholders will be held on Tuesday May 24, 2012 at Näringslivets Hus, Storgatan 19, Stockholm. The AGM will start at 10:00 am, and the doors will be open at

9:30 am. The annual report for 2011 will be available on the Company's website as of April 26, 2011.

Nomination Committee

The principles for the appointment of the Nomination Committee were approved by the AGM of May 31, 2011. The principal owners propose that the AGM establish the following principles:

The Company shall have a Nomination Committee comprised of the Chairman of the Board and four other members representing each of the four owners holding the largest number of voting rights. Those shareholders with the largest number of voting rights will be contacted on the basis of the Company's record provided by the Swedish Central Securities Depository of registered shareholders (by owner group) as at October 31, 2011. Those shareholders who are not registered with the Swedish Central Securities Depository, and who wish to exercise their voting rights, should apply to the Chairman of the Board and must be able to evidence ownership of shares. At the earliest convenient date after the end of October the Chairman of the Board shall contact the four shareholders with the largest number of voting rights, as determined above, and will request that they each appoint a member to the Committee. If any of the shareholders decline their right to appoint a member to the Nomination Committee, the shareholder with the next most voting rights shall be provided with the opportunity to appoint a member. The names of the owner representatives and the names of the shareholders they represent shall be made public no less than six months prior to the AGM. The Nomination Committee's mandate continues until a new Nomination Committee is appointed. The Chairman of the Nomination Committee shall, unless the members agree otherwise, be the member representing the largest shareholder. If a member resigns from the Nomination Committee prior to the work for that mandate being completed, and if the Nomination Committee deems that it is necessary to replace this member, then the Nomination Committee shall appoint a new member. No fees shall be paid to the members of the Nomination Committee.

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

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

The names of the owner representatives shall be published on the Company's website at the earliest convenience after the appointment. Proposals may be sent to valberedning@centralasiagold.se or sent by post to Central Asia Gold AB at: Nomination Committee, Engelbrektsplan 2, 4 fl, 114 34 Stockholm. The election committee up to the 2012 AGM has consisted of: Lars Guldstrand, James Smith representing Bertil Holdings Ltd, Roger Hassanov representing GKL Growth Capital, Martin Diggle representing Vulpes Investment Management Ltd, and Per Vasilis representing Niclas Eriksson and the family.

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 the Group's financial situation. The Board of Directors deals with issues of material significance, such as business plans including profitability targets, budgets, interim reports and annual reports, the acquisition or sale of companies, significant property acquisitions or sales, the establishment of important policies, the structure of internal control systems, and significant organisational changes. Each year, CAG's Board establishes procedural rules and written instructions regarding financial reporting and the division of work between the Board and the Chief Executive Officer. The procedural rules regulate, among other things, the Board's duties, the minimum number of Board meetings each year, the manner in which meetings are to be notified and the documents required to be distributed before Board meetings and the manner in which the minutes of Board meetings are to be drawn up. The written instructions regarding financial reporting regulate the reporting system in place, as

the Board needs to be able to continually assess the Company and Group's financial position, as well as the division of work between the Board and the Chief Executive Officer.

Chairman of the Board of Directors

During 2011, Central Asia Gold's Chairman of the Board led the Board's work and ensured that the Board fulfilled its duties. The Chairman of the Board has continually followed the Group's business and development through contact with the Chief Executive Officer and through his own frequent meetings or discussions with the heads of the subsidiaries.

Members of the Board of Directors

At year-end 2011, Central Asia Gold's Board was comprised of six members elected by the AGM. The Chief Executive Officer is a member of the Board of Directors. The members of the Board are presented in more detail further on in this report, together with details of the members' independence vis à vis the Company and its management.

The Board's work in 2011/2012

After the election of the board on the AGM in 2011, the Board held 17 meetings, 8 of which were by correspondence and 4 were held by telephone. The 5 other meetings were physical meetings. The important issues dealt with by the Board in 2011, in addition to the approval of the annual report and the interim reports, establishing a business plan and the related budgets, were as follows:

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

Members of the Board during the 2011/2012

Lars Guldstrand

Chairman of the Board, elected 2009. Lars Guldstrand is a Swedish citizen, born 1957, with more than 25 years' experience in international leadership and investment in the telecom, media and technology sectors. He has also worked with corporate turnarounds and reorganisations, and M&A activities in a number of other areas, including the finance and Internet sectors.

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

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

Preston Haskell

(See presentation under group management below)

Niclas Eriksson

Niclas Eriksson is a director of the Net Entertainment, King City Real Estate AB, Vasastaden Holding AB, Vassholmen AB and Isogenica Ltd. Niclas holds a Master degree in Finance. Niclas is a Swedish citizen, born 1964.

Tom Baring

Tom Baring has over 10 years of experience within the alternative investment management industry, the last 4 of which were spent focused on the Russian market. Tom is resident in Moscow and currently manages the investment arm of a large family office PHH Group. Tom Baring, a British citizen, born in 1979.

Nick Harwood

Nick is currently a Sloan Fellow at the MIT Sloan School of Management. Prior to this he was a partner and Deputy Head of Troika Dialog's Global Markets Business based in Moscow. He has previously held several senior positions at Citigroup Global Markets in London and Johannesburg, ING Barings in New York, NatWest Markets and Fleming Martin in London. Nick is a non-executive Director of the Red Fort Partnership, a specialist mining investment fund. Nick Harwood holds a Bachelor of Business Science (Finance) from the University of Cape Town in South Africa. Nick is a British citizen, born in 1968.

Gordon Wylie

Gordon has 35 years' experience in the Gold Mining Industry in both mining and exploration geology. Between 1997 and 2005 Gordon was part of AngloGold Ashanti's senior management team where he was responsible for the company's glob-

Board members' independence and shares in CAG

Board member	Shares in CAG	Warrants in CAG	Independent of the company and management*	Independent of the major shareholders*
Lars Guldstrand	1,166,819**	0	Yes	No
Preston Haskell	9,314,968**	0	No	No
Niclas Eriksson	780,000	0	Yes	Yes
Tom Baring	0	0	No	No
Nick Harwood	48,130	0	Yes	Yes
Gordon Wylie	0	0	Yes	Yes

* Independence as defined by the Swedish Code of Corporate Governance.

**Shares owned via companies.

Board members' attendance at Board meetings

Name	Position	Present
Lars Guldstrand	Chairman of the Board	17/17
Preston Haskell	Member	17/17
Niclas Eriksson	Member	16/17
Tom Baring	Member	17/17
Nick Harwood	Member	16/17
Gordon Wylie	Member	16/17

al exploration programs covering some 23 countries and 5 continents worldwide. Gordon has previous experience as a non-executive director with the AIM listed Trans Siberian Gold and OxusGold. He was until the end of 2009 vice chairman of Continental Gold. He is a founder and still non-executive chairman of Lydian International having gold assets in Armenia and base metal assets in Kosovo, and which listed on the TSX in 2007. He is also a non-executive director of Avocet Mining Plc. a LSE and Oslo Stock Exchange listed company and Llave de Oro a private company with assets in Colombia. Born in Glasgow, Scotland in 1952, he holds a Bachelor's degree with Honours in Geology from the University of Glasgow (1975), a Management Diploma from UNISA South Africa (1989) and a Postgraduate Diploma in Mining Engineering from Wits University South Africa (1999).

Board's division of work

There was no verbal or written division of work for the members of the Board during the 2011 financial year.

Board committees

CAG's Board of Directors chose not to establish any special audit or remuneration committees in 2011. The Board found it more appropriate to allow the Board to perform the tasks of the committees with regard to remuneration and audit-related issues. These issues have been dealt with along with the ordinary Board work.

Board fees

The Board of Directors' fees are decided by the AGM. At the AGM on May 31, 2011 it was decided to determine the Board fees for Gordon Wylie, Nick Harwood, Tom Baring, Niclas Eriksson at TSEK 200 each and for the Chairman Lars Guldstrand at TSEK 250. No compensation shall be paid to the Board member and the Chief Executive Officer Preston Haskell.

Chief Executive Officer and other senior executives

The Chief Executive Officer, who is also the Head of the Group, is responsible for the on-going management of the Company. The Board's written instructions stipulate the division of work between the Board and the Chief Executive Officer. The CEO's work is evaluated once a year, at latest at the Board meeting in February 2011. Preston Haskell is Chief Executive Officer and Head of Group for Central Asia Gold since September 2009.

Group management

Preston Haskell

Chief Executive Officer, Head of Group, and Board member of Central Asia Gold AB since 2009. Preston Haskell is Saint Kitts and Nevis citizen, born 1966, and has been active as a businessman in Russia since the early 1990s. Haskell is a Board member of Fleming Family and Partners Real Estate Development Fund Ltd and is the owner with active operational management in LLC Haskell Group.

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

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

Shares in Central Asia Gold: 9,314,968 (through companies). Warrants in Central Asia Gold: 0

Johan Arpe

Chief Financial Officer, Johan is a Swedish citizen born in 1973. He has a Masters degree in Business and Administration from Uppsala University and has worked as an authorized public accountant at PwC, RSM Ranby Björklund and Deloitte. Johan Arpe is the CFO of Central Asia Gold since spring 2011 and is located at the company's office in Stockholm.

Shares in Central Asia Gold: 23,800. Warrants in Central Asia Gold: 0

Remuneration of Executive Management

For information regarding the remuneration policy and the remuneration of the Chief Executive Officer, senior executives and other employees, please see Note 3 on page 49 of the annual report.

Long-term incentive programs

The Board regularly evaluates the need for long-term incentive programs. Currently there is a long-term incentive program for key personnel of the company, adopted at the Annual Shareholders Meeting on June 28, 2010. Given changes in the senior management and lower interest than expected from the Company's employees the warrants in the program has not been allocated and it is proposed to the Annual Shareholders meeting to cancel the program.

The Board intends to propose a new compensation program to the employees that is based on the company's objectives and market conditions.

Auditor

The AGM appoints an auditor of the Company. The auditor's task is to examine the Company's annual financial statements and accounts, as well as the management by the Board and the Chief Executive Officer. The AGM of June 12, 2008 appointed, for a period of four years (until

the 2012 AGM), Öhrlings PricewaterhouseCoopers AB as the company's auditors. The responsible auditor at Öhrlings PricewaterhouseCoopers AB is Authorized Public Accountant Martin Johansson.

The audit is conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden

The audit of the annual accounts is conducted during the period from January to April. The process is initiated, however, when the examination of the nine-month accounts is initiated in October of the financial year in question. The 9 months interim report was subject to review during the financial year.

Internal control

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

Control environment

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

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

Risk assessment

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

Control activities

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

Information and communication

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

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

Monitoring

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

The Board continuously evaluates the information provided by Company management. Each month the 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 establish a separate internal audit unit. Given its size, the Company finds that it is not viable to have a separate internal audit unit. However, if the Board finds it appropriate, internal control will be further expanded. The issue of internal control and a separate internal audit unit is annually reviewed by the Board and will be discussed again in 2012.

Deviations from the Swedish Code of Corporate Governance

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

- The entire Board of Directors performs the duties of the audit and compensation committees.

Given the clear ownership structure, Preston Haskell, CEO and majority shareholder participates in the work of these committees.

CAG has not complied with the code as regards the following point:

- The Chairman of the Board shall as soon as possible at the end of October contact the four largest shareholders and ask them to appoint a member of the election committee, the Chairman of the Board is the fifth member of the committee.

The deadline was not kept. The information was published on the Company's website first in January 2012, due to the fact that no information on composition of election committee was available earlier.

- The nomination committee's proposals are to be presented in the notice of a shareholder's meeting where the election of Board members or auditor is to be held and on the company's website.

Due to the fact that the Board of Directors has not been informed by the nomination committee on its proposals before May 31, 2011, the nomination committee's proposal could not be included in the notice.

- The company's nomination committee is to propose a chair for the annual general meeting. The proposal is to be presented in the notice of the meeting.

The Board of Directors has not been informed by the nomination committee on its proposal regarding the appointment of the Chairman of the meeting in a timely manner so it could be included in the notice of the meeting. The proposal was announced on May 31, 2011.

Parent company

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

As of January 1, 2010, the group changed its policy for reporting exchange rate gains and losses arising on intercompany loans to be reported as a component of other comprehensive income instead of a part of financial items in the income statement due to their character of net investments in foreign operations. The change in the group's accounting policy also affects the accounting in the parent company, hence

the income statement, balance sheet and statement of changes in equity in the parent company has been restated in accordance with note 27.

The operating result for 2011 was TSEK -13,677 (5,490). The difference from last year is mainly due to significant non-recurring operating income in 2010, of TSEK 12,771, where TSEK 7,762 referred to the sale of the subsidiary LLC Kara Beldyr to the JV company Awilia Enterprises Ltd and TSEK 5,009 referred to the retroactive VAT reimbursement. Operating expenses in 2011 amounted to TSEK 13,875 (7,951).

Net financial items amounts to TSEK -228,402 (9,535) for 2011 and includes write down of intercompany loan receivables of TSEK -224,208 (0) relating to the production units Solcocon and Gold Borzya.

Net result for the reporting period amounted to TSEK -242,080 (14,499).

Total cash balance in the parent company was TSEK 8,119 (10,945) at the end of December 2011. The increase in current liabilities relates mainly to loans from the related party, Golden Impala of TSEK 159,931 (0).

Proposal for profit distribution

The Group's equity at year-end 2011 amounted to TSEK 308,031, of which the share capital is TSEK 198,191.

In the Parent Company the unrestricted shareholders equity amounts to:

	SEK
Share premium reserve	580,798,838
Translation difference reserve	-31,917,299
Retained earnings	-48,012,407
Net income for the year	-242,079,516
Total unrestricted equity	258,789,616

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

Consolidated income statement

(amounts in TSEK)	Note	2011-01-01 – 2011-12-31	2010-01-01 – 2010-12-31
Income			
Revenue from sales of gold		131,965	214,037
Capitalised work for own account	8	4,112	18,153
Change in work in progress and finished goods		42,663	15,097
Other operating income	1	18,175	35,838
		196,915	283,125
Operating costs			
External expenses	2	-133,558	-153,634
Employee benefit expenses	3	-84,409	-72,403
Depreciation and amortisation of tangible and intangible assets	4	-26,081	-23,309
Impairment of assets	4	-37,766	–
Other operating expenses	1	-16,266	–
		-298,079	-249 346
Operating result		-101,164	33,779
Financial income	5	466	1,280
Financial expenses	6	-27,567	-17,951
Profit before income tax		-128,265	17,108
Income tax	7	7,869	-9,420
Net profit for the year		-120,396	7,688
Of which attributable to:			
Owners of the parent		-119,325	7,964
Non-controlling interest	25	-1,071	-276
Earnings per share before dilution, SEK	18	-7.17	1.58
Earnings per share after dilution, SEK		-7.17	1.58
Number of shares at the end of the financial year		17,616,987	16,016,987
Average number of shares outstanding during the financial year		16,652,603	5,026,107
Average number of shares outstanding for the year after dilution		16,652,603	5,026,107

Consolidated statement of comprehensive income

(all amounts in TSEK)	2011-01-01 – 2011-12-31	2010-01-01 – 2010-12-31
Net income for the year	-120,396	7,688
Other comprehensive income		
Translation differences	-6,739	-16,320
Total comprehensive income for the year	-127,135	-8,632
Total comprehensive income for the year attributable to:		
Owners of the parent	-126,064	-8,356
Non-controlling interest	-1,071	-276

Consolidated balance sheet

(all amounts in TSEK)	Note	2011-01-01 – 2011-12-31	2010-01-01 – 2010-12-31
NON-CURRENT ASSETS			
Intangible fixed assets			
Mining permits and capitalised exploration costs	8	159,496	154,301
Tangible fixed assets			
Buildings and land	9	19,879	28,278
Machinery, equipment and other technical plants	10	97,647	61,687
Construction in progress	11	111,839	53,122
		229,365	143,087
Investments in joint ventures	13	28,919	24,652
Other financial fixed assets		307	115
Deferred income tax assets	7	50,879	36,171
Total non-current assets		468,966	358,326
CURRENT ASSETS			
Inventories	15	153,620	167,772
Accounts receivable		986	2,467
Loans receivable		–	556
Other current receivables	16	29,146	53,111
Prepaid expenses	16	12,382	33,026
Cash and cash equivalents	17	10,995	22,230
Total current assets		207,129	279,162
TOTAL ASSETS		676,095	637,488
EQUITY AND LIABILITIES			
EQUITY			
	18		
Share capital		198,191	180,191
Additional paid in capital		155,819	143,705
Translation difference reserve		-18,143	-11,404
Retained earnings		-27,836	91,614
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		308,031	404,106
Non-controlling interest	25	–	1,405
TOTAL EQUITY		308,031	405,511
NON-CURRENT LIABILITIES			
Deferred income tax liability	7	50,318	45,570
Provisions	19	10,261	5,599
Long-term loans	23	23,940	10,113
Other long-term liabilities		894	–
Total non-current liabilities		85,413	61,282
CURRENT LIABILITIES			
Accounts payable		13,527	31,041
Short-term loans	23	234,193	113,535
Other current liabilities		23,168	18,470
Accrued expenses	20	11,763	7,649
Total current liabilities		282,651	170,695
TOTAL EQUITY AND LIABILITIES		676,095	637,488
PLEDGED ASSETS			
	21	188,816	53,586
CONTINGENT LIABILITIES			
	21	–	31,436

Consolidated statement of changes in equity

(All figures in TSEK)	Note	Attributable to the shareholders of the parent				Non-controlling interest	Total equity
		Share capital	Additional paid in capital	Translation difference reserve	Retained earnings		
Equity as of 1 January 2010		176,531	-66,031	4,915	83,649	1,681	200,745
Net result for the year					7,695	-276	7,689
Translation differences				-16,320			-16,320
Total comprehensive income				-16,320	7,965	-276	-8,631
Reduction of share capital	18	-156,671	156,671				—
Proceeds from rights issue	18	160,331	67,829				228,160
Costs for rights issue			-14,764				-14,764
Total transactions with shareholders		3,660	209,736				213,396
Equity as of 31 December 2010		180,191	143,705	-11,405	91,614	1,405	405,510
Net income for the year					-119,325	-1,071	-120,396
Translation differences				-6,739			-6,739
Total comprehensive income				-6,739	-119,325	-1,071	-127,135
Change in non-controlling interest					-125	-334	-459
Proceeds from rights issue	18	18,000	10,000				28,000
Costs for rights issue	18		-108				-108
Adjustment of costs for rights issue			2,222				2,222
Total transactions with shareholders		18,000	12,114				30,114
Equity as of 31 December 2011		198,191	155,819	-18,144	-27,836	—	308,030

Consolidated cash flow statement

(all amounts in TSEK)	Note	2011-01-01 – 2011-12-31	2010-01-01 – 2010-12-31
Cash flows from operating activities			
Operating result		-101,164	33,779
Adjustment for non-cash items	22	60,465	-6,391
Interest received		292	–
Interest paid		-13,615	-10,894
Paid income tax		–	–
Cash flow from operations before changes in working capital		-54,022	16 494
Changes in working capital			
Change in inventory		-23,642	-77,702
Change in current receivables		42,914	-45 243
Change in current liabilities		-7,944	9 598
Total change in working capital		11,328	-113 347
Net cash used in operating activities		-42,694	-96 853
Cash flows from investing activities			
Proceeds from sale of subsidiaries	24	21,466	14 091
Investment in intangible assets	8	-4,112	-18 153
Investment in tangible assets	9-11	-141,727	-88 232
Change in loans granted		–	-5 881
Loan repayment		366	2,955
Net cash used in investing activities		-124,009	-95 220
Cash flows from financing activities			
Proceeds from borrowings		265,748	170 129
Repayments of borrowings		-138,600	-65,968
Proceeds from rights issue		27,892	86 803
Net cash generated from financing activities		155,040	191 234
Net change in cash		-11,663	-839
Cash at the beginning of the period	17	22,230	22,732
Translation difference in cash	17	428	337
Cash at the end of the period	17	10,995	22,230

Parent company income statement

(all amounts in TSEK)	Note	2011-01-01 – 2011-12-31	2010-01-01 – 2010-12-31 Restated*
Income			
Other operating income	1	198	13,441
Operating costs			
External expenses	2	-11,586	-7,009
Employee benefit expenses	3	-2,289	-942
Operating income		-13,677	5,490
Financial income	5	17,745	15,359
Financial expenses	6	-246,148	-5,824
Result after financial items		-242,080	15,025
Income tax	7	–	-526
Net Income for the year		-242,080	-14,499
Earnings per share before dilution, SEK		-14.54	-2.88
Earnings per share after dilution, SEK		-14.54	-2.88
Number of shares at the end of the financial year		17,616,987	16,016,987
Average number of shares outstanding during the financial year		16,652,603	5,026,107
Average number of shares outstanding during the financial year after dilution		16,652,603	5,026,107

* Restated in accordance with note 27.

Parent Company statement of comprehensive income

(all amounts in TSEK)	2011-01-01 – 2011-12-31	2010-01-01 – 2010-12-31 Restated*
Net income for the year	-242,080	14,499
Other comprehensive income		
Translation differences	-825	-24,686
Total comprehensive income for the year	-242,905	-10,187

* Restated in accordance with note 27.

Parent company balance sheet

(all amounts in TSEK)	Note	2011-01-01 – 2011-12-31	2010-01-01 – 2010-12-31
			Restated*
NON-CURRENT ASSETS			
Financial non-current assets			
Investments in subsidiaries	12	443,993	443,993
Investments in joint ventures	13	22,215	16,924
Loans to subsidiaries	14	237,111	274,563
Other financial non-current assets		123	–
Total non-current assets		703,442	735,480
CURRENT ASSETS			
Other current receivables	16	313	575
Prepaid expenses	16	89	64
Cash and cash equivalents	17	8,119	10,945
Total current assets		8,521	11,584
TOTAL ASSETS		711,963	747,064
EQUITY AND LIABILITIES			
EQUITY	18		
Restricted equity			
Share capital		198,191	180,191
Statutory reserve		68,032	68,032
Total restricted equity		266,223	248,223
Unrestricted equity			
Share premium reserve		580,799	568,685
Translation difference		-31,917	-31,092
Retained earnings		-48,012	-62,511
Net result for the year		-242,080	14,499
Total unrestricted equity		258,790	489,581
TOTAL EQUITY		525,013	737,804
NON-CURRENT LIABILITIES			
Long-term loans	23	14,914	6,398
Total non-current liabilities		14,914	6,398
CURRENT LIABILITIES			
Accounts payable		148	2,070
Short-term loans	23	159,931	–
Other short-term liabilities		197	15
Accrued expenses	20	11,760	777
Total current liabilities		172,036	2,862
TOTAL EQUITY AND LIABILITIES		711,963	747,064
PLEDGED ASSETS	21	405,885	248,065
CONTINGENT LIABILITIES	21	79,550	106,762

* Restated in accordance with note 27.

Parent company's statement of changes in equity

(amounts in TSEK)	Note	Share capital	Statutory reserve	Share premium reserve	Translation difference reserve	Retained earnings	Net income for the year	Total equity
Equity as of January 1, 2010		176,531	68,032	313,198	—	-56,637	-12,280	488,844
Effect of restatement of translation differences*	27				-6,406	6,406		
Restated equity as of January 1, 2010*		176,531	68,032	313,198	-6,406	50,231	-12,280	488,844
Profit/loss brought forward						-12,280	12,280	
Net result for the year*							14,499	14,499
Translation differences*					-24,686			-24,686
Total comprehensive income					-24,686		14,499	-10,187
Reduction of share capital	18	-156,671		156,671				
Proceeds from right issue	18	160,331		67,829				228,160
Costs for right issue				-14,764				-14,764
Shareholders contribution				45,751				45,751
Total transactions with shareholders		3,660		255,487				259,147
Equity as of December 31, 2010		180,191	68,032	568,685	-31,092	-62,511	14,499	737,804
Profit/loss brought forward						14,499	-14,499	
Net result for the year							-242,080	-242,080
Translation differences					-825			-825
Total comprehensive income					-825		-242,080	-242,905
Proceeds from right issue	18	18,000		10,000				28,000
Costs for right issue				-108				-108
Adjustment of previous years costs for right issue				2,222				2,222
Total transactions with shareholders		18,000		12,114				30,114
Equity as of December 31, 2011		198,191	68,032	580,799	-31,917	-48,012	-242,080	525,013

* Restated in accordance with note 27.

The parent company's cash flow statement

(amounts in TSEK)	Note	2011-01-01 – 2011-12-31	2010-01-01 – 2010-12-31
Cash flows from operating activities			
Operating income		-13,677	5,490
Adjustment for non-cash items	22	–	-8,392
Received interest		174	130
Paid interest		-2,080	-2
Cash flow from operations before changes in working capital		-15,583	-2,774
Changes in working capital			
Change in current receivables		237	104
Change in current liabilities		9,149	1,392
Net cash used in operating activities		-6,197	-1,278
Cash flows from investing activities			
Investment in subsidiaries	12	–	-8,892
Loans granted to subsidiaries	14	-178,057	-189,555
Net cash used in investing activities		-178,057	-198,447
Cash flows from financing activities			
New share issue proceeds, net after issue cost		27,892	86,803
Loans received		153,116	110,125
Net cash generated from financing activities		181,008	196,928
Net change in cash		-3,246	-2,797
Cash at the beginning of the period	17	10,945	14,794
Translation difference in cash	17	420	-1,052
Cash at the end of the period	17	8,119	10,945

Accounting principles

General information

Central Asia Gold AB (publ) ("CAG AB", "the Parent company" or "the Company") and its subsidiaries (collectively referred to as "the Group", "CAG" or "the CAG Group") currently engage in the exploration for and production of mineral gold in different regions of the Russian Federation. The amount of gold sold during 2011 amounted to 410 kg. The Parent Company is a public limited liability company registered and with its head office in Sweden. The address of the head office is Engelsbrektsplan 2, 4 fl, 114 34 Stockholm.

CAG AB was publicly listed on the Swedish NGM Nordic Growth Market stock exchange on March 29, 2005 and has been listed on the Swedish stock exchange NASDAQ OMX First North Premier since July 19, 2010. At present, the Company has approximately 3,500 shareholders.

The Board of directors approved these consolidated accounts for publication on April 26, 2012.

Summary of important accounting principles

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

Basis for the preparation of reports

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

The financial reports for 2011 have been prepared using the historical cost method.

The Parent Company accounts are prepared in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 "Accounting for legal entities". The accounting policies for the parent company are the same as for the group with a few exceptions. These exceptions are, where applicable, described under each section below.

New IFRS and interpretations

The below new and amended standards (IAS/IFRS) and new and amended interpretations (IFRIC) that came into effect in 2011 and were adopted by the EU have been applied in the preparation of these accounts.

- IAS 1, Presentation of Financial statements
- IFRS 7, Financial Instruments
- IAS 24, Related Party Disclosures

None of these amendments or new standards/interpretations has had any material impact on CAG's financial reporting and no other new or amended standards or interpretations adopted by the EU have been applicable in the preparation of CAG's accounts for 2011.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011, that is considered to have a possible impact on CAG's financial reporting in the future, are described below. None of the below standards and amendments have been early adopted by the group.

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

IFRS 10, 'Consolidated Financial Statements' is based on already existing principles defining control as the decisive factor in determining whether a company is to be included in the consolidated accounts. The standard provides further guidance that can be of assistance when it is difficult to determine control. CAG intends to apply IFRS 10 for the financial year commencing 1 January 2013 and has not yet evaluated the full impact on the financial statements. The standard has not yet been adopted by the EU.

IFRS 11, 'Joint Arrangements' is a new standard for classification of joint arrangements as joint ventures or joint operations.

In the future, joint ventures will be recognised in accordance with the equity method. CAG intends to apply IFRS 11 for the financial year commencing 1 January 2013 and has not yet evaluated the full impact on the financial statements. The standard has not yet been adopted by the EU.

IFRS 12, 'Disclosures of Interests in Other Entities' includes the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. CAG intends to apply IFRS 12 for the financial year commencing 1 January 2013 and has not yet evaluated the full impact on the financial statements. The standard has not yet been adopted by the EU.

IFRS 13, 'Fair Value Measurement' aims to improve consistency and reduce complexity in the application of fair value measurement by providing a precise definition and a shared source in IFRS for fair value measurements and the associated disclosures. The requirements do not expand the area of application for when fair value is required to be used, but provide guidance on how it should be applied when other IFRSs already require or permit fair value measurement. CAG has not yet evaluated the full impact of IFRS 13 on the financial statements. The Group intends to apply the new standard for the financial year commencing 1 January 2013. The standard has not yet been adopted by the EU.

Consolidated accounts

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

Subsidiaries are fully consolidated from the date on which controlling interest is transferred to the Group. They are deconsolidated from the date on which such controlling interest ceases. The Group uses the acquisition method of accounting to report business combinations. The consideration transferred for the acquisition of a

subsidiary is comprised of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group reports any non-controlling interest in the acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net assets. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. The accounting principles of subsidiaries have been changed, where necessary, to ensure consistency with the accounting principles adopted by the Group.

In the parent company accounts, investments in subsidiaries are reported at cost less any impairment charges. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. The excess of the consideration transferred the amount of any non-controlling interest in the acquired entity and the fair value on the acquisition date of any previous equity interest in the acquired entity exceeding the fair value of the Group's share of the identifiable net assets acquired is reported as goodwill. If this amount is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Interests in joint ventures

A joint venture, or jointly controlled entity, is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, except that a contractual arrangement establishes joint control. A jointly controlled entity controls the assets of the joint venture, earns its own income and incurs its own liabilities and expenses. Interests in jointly controlled entities are reported using the equity method. Under the equity method, the investment in the joint venture is reported in the statement of financial position at cost plus post acquisition changes

in the Group's share of net assets of the joint venture.

The profit or loss reflects the Group's share of the results of the operations of the joint venture. When there has been a change reported directly in other comprehensive income or equity of the joint venture, the Group reports its share of any changes and discloses this, when applicable, in the statement of comprehensive income or the statement of changes in equity, as appropriate. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to an extent corresponding with the interest in the joint venture. The financial statements of the jointly controlled entity are prepared for the same reporting period as the participant. Where necessary, adjustments are made to bring the accounting principles in line with those of the Group.

Non-controlling interests

Non-controlling interests are recognised as a separate item in the Group's equity. For purchases from non-controlling interests, the difference between any consideration paid and the relevant acquired share of the reported value of net assets of the subsidiary is reported in equity. Gains or losses on sales to non-controlling interests are also reported in equity. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to fair value, with the change in the reported value reported in profit or loss. In addition, any amounts previously reported in other comprehensive income in respect of that entity are reported as if the Group had directly disposed of the related assets or liabilities. This may imply that amounts previously reported in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously reported in other comprehensive income is reclassified to profit or loss, where appropriate.

Translation of foreign currency Functional currency and reporting currency

Items that are included in the financial statements for the various entities in the Group are valued in the currency used in the economic environment in which the respective entity is primarily active (functional currency). This is currently the rouble, as almost all subsidiaries (except Awilia

Enterprises Limited) are currently located in Russia and primarily use the rouble in their daily activities. The consolidated accounts are presented in SEK, which is the Swedish Parent Company's functional currency and the reporting currency.

Translation of foreign subsidiaries and other foreign operations

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

- (a) assets and liabilities for each of the balance sheets are converted at the closing rate;
- (b) income statements for each of the subsidiaries are converted at the average exchange rate (provided that this average rate constitutes a reasonable approximation of the accumulated effect of the rates applying on the date of the transaction, otherwise assets and liabilities are converted at the rate on the date of the transaction), and
- (c) all exchange rate differences arising are recognised as a separate component of other comprehensive income and the cumulative effect is included in the translation difference reserve in equity.

Foreign exchange gains/ losses arising on inter-company loans are reported as a part of other comprehensive income in the income statement and the cumulative effect is included in the translation difference reserve in equity. When disposing a foreign operation, exchange rate gains and losses relating to the disposed operation is accounted for in the income statement as a part of the capital gain/loss on the disposal.

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

Accounting in the parent company

As of January 1, 2010, the group changed its policy for reporting exchange rate gains and losses arising on intercompany loans to be reported as a component of other comprehensive income instead of a part of financial items in the income statement due to their character of net investment in foreign operations. The change in the group accounting policy also affects the

accounting of the exchange rate differences in the parent company accounts, were these differences are reported in a fair value reserve (translation difference reserve) in equity, instead of in financial items in the income statement. The change in value is reported in the parent company's other comprehensive income.

With regards to the above, the income statement, balance sheet and statement of changes in equity for the parent company has been restated in accordance with note 27.

Receivables and liabilities in foreign currency

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

Revenue recognition

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

(a) Sale of gold

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

is reported separately as a production cost among operating expenses. Sale of gold is currently not subject to value added tax in Russia.

(b) Other income

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

(c) Interest income

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

Depreciation and amortisation

Intangible fixed assets

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

Tangible fixed assets

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

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

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

Impairment of non-financial assets

Intangible assets with indefinite useful lifetimes are tested for impairment annually

as at December 31, either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the reported value may be impaired. At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Each mining licence area or production unit is considered to be a CGU for the Group. Where the reported value of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of at least five years. Impairment losses of continuing operations, including impairment of inventories, are reported in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued in which the revaluation was reported in other comprehensive income. In this case, the impairment is also reported in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously reported impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously reported impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was

reported. The reversal is limited so that the reported value of the asset does not exceed its recoverable amount, nor exceed the reported value that would have been determined, net of depreciation, had no impairment loss been reported for the asset in prior years. Such reversal is reported in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase and is reported in other comprehensive income. Impairment losses on goodwill are never reversed.

Current and deferred income tax

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

The current tax expense is reported on the basis of the tax regulations that were determined on the balance sheet date or which, in practice, were determined in the countries in which the Parent Company's subsidiaries and associated companies operate and generate taxable income. The management regularly assesses the applications made in income tax returns in relation to situations where applicable tax regulations are the subject of interpretation. When considered appropriate, provisions are made for amounts that are likely to be payable to the Tax Agency.

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

Deferred tax assets are recognised to the extent it is probable that future tax sur-

pluses will be available, against which the temporary differences can be offset.

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

Intangible fixed assets

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

Licences for mining permits are initially reported at acquisition value. Such licences are acquired in Russia (the Group's only area of operation at present) usually at an open, public licence auction, at which the winning auction price is the acquisition value.

Exploration work is reported at acquisition value and includes various activities, such as drilling of various natural areas, geochemical and magnetic surveys and analyses in laboratories. Exploration work can, in addition, include salary costs for staff that conduct the work, materials and fuel used, depreciation on machinery and equipment used and administrative expenses that are directly attributable to sites subject to exploration work. Borrowing costs directly attributable to exploration projects commencing after January 1, 2009, are included in the capitalised amount of exploration costs.

When it has been established that there is extractable ore at an individual mining or placer property and technical possibilities and commercial potential for extraction of the ore body can be proven, the capitalised exploration costs are reported in accordance with IAS 38, Intangible assets. Costs for development of a mining property where production has commenced are capitalised if it is likely that they will produce additional performance gains in the mining property resulting in the likelihood of prospective economic benefits, which

include future revenue from newly discovered gold, cost savings or other benefits resulting from the use of the asset. If this is not the case, these expenses are reported as production costs in the period in which they are incurred.

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

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

Tangible fixed assets

Tangible fixed assets consist of buildings, machinery, office equipment, tools, technical plants and construction in progress. All tangible fixed assets are reported at historical cost less depreciation. The initial cost of an asset is comprised of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of the restoration obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration provided to acquire the asset. Borrowing costs directly attributable to tangible assets acquired after January 1, 2009 are also included in the acquisition value. The capitalised value of a financial lease is also included within tangible fixed assets. Expenditure for improvement of the performance of the assets over and above the original performance increases the reported value of these assets. Expenditure for repair and maintenance is reported as an expense in the period in which it is incurred.

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

Construction in progress is represented mostly by new plant construction. The Group assesses the degree of completion of the plant under construction to determine when it moves into gold production. Upon completion of construction, the assets are transferred into buildings or machinery, equipment and other technical plants. The assets' residual value and useful life are reviewed on each balance sheet

date and adjusted when necessary. When an asset's reported value may not be recoverable, an impairment loss is reported immediately to its recoverable amount.

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

Inventory

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

Central Asia Gold manufactures, via its subsidiaries, gold concentrate at various advanced levels. The gold concentrate is usually smelted by the subsidiary into Doré class gold ingots prior to delivery to external refineries (smelting works) for final enrichment to sale quality (24 carat). This gold is designated "pure gold" in the balance sheet. Furthermore, a semi-finished product or "waste sand" containing gold was produced during 2007–2010 within the Tardan mining deposit. This sand cannot be sold, but is being stored pending the on-going construction of the heap leaching plant where the gold can be chemically extracted. This semi-finished product together with mined ore is designated "ores and concentrates" in the balance sheet. The consolidated balance sheet also includes an item that covers the spare parts, diesel fuel, etc. that is consumed during gold manufacture. This category of assets is referred to as "raw materials and consumables". Furthermore, the consolidated balance sheet includes work in progress, such as preparation works (overburden, etc.) for the next production season on alluvial production units. Together "pure gold", "ores and concentrates", "raw materials and consumables" and "work in progress" constitute the balance sheet item "inventory".

Leasing

A financial leasing contract is one in which, in all-significant respects, the economic

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

Leasing fees for operational leasing contracts are expensed on a straight-line basis 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 prerequisite that it is possible to make a reliable assessment of the amount to be paid out. The amount in question is calculated by the executive management at the present value given the reasonable assumptions that can be made at the end of each reporting period.

Financial instruments

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

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

over them. A financial liability is removed from the balance sheet when the liabilities under the agreement have been fulfilled or in any other way rescinded.

Classification

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

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

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

b) Loans receivable and trade receivables

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

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

than 30 days) are considered as indicators that the account receivable is impaired.

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

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

c) Financial assets available for sale

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

d) Financial liabilities

Financial liabilities include trade creditors and borrowings.

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

Fair value hierarchy

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

Management of financial risks

Policy for the management of financial risks

The Group's activities expose it to a variety of financial risks: a) market risk (in-

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

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

The Group's assessed risk exposure relating to financial instruments is described further in note 23.

Segment reporting

Operating segments are recognised in a manner that complies with the internal reporting submitted to the highest decision-making authoritative function. At CAG, this function has been identified as the CEO, who is responsible for and manages the day-to-day administration of the Group in accordance with the guidelines of the Board.

Since the date of its formation, CAG has only extracted one product, gold, in one economic environment, Russia. An operating segment is a group of assets and performed activities that are exposed to risks and rewards that differentiate them from other operating segments. A geographical area is an area in which assets, goods or services are exposed to risks relating to a certain economic environment that differentiates them from risks associated with activities in other economic environments. Hence, the Group is only considered to have one operating segment.

Employee benefits

All of the Group's pension plans are defined contribution plans, in which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current period and prior periods. Wages, salaries, contributions to the Russian

Federation state pension and social security funds, paid annual leave and sick leave and bonuses are accrued in the period in which the associated services are rendered by the employees of the Group.

Equity

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

Cash flow statement

Cash flows from operating activities are reported using the indirect method whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Interest paid and received is classified as operating activities in the cash flow statement.

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

Estimations and evaluations in the financial statements

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

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

Ore calculation principles

Central Asia Gold reports ore reserves in accordance with Russian geological standards. In short, this means that, after the initial exploration period for a mining licence, all mineral licence holders in Russia must undergo an ore classification inspection (roughly equivalent to a western feasibility

ity 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. If the ore reserves are approved, they are entered in the Russian state register of reserves and will provide the basis for production requirements that are, consequently, drawn up for the licence holder. The Russian principles for ore classification are similar, but not identical, to western standards.

The Russian registered ore reserves form the basis for the Central Asia Gold Group's amortisation of mining permits and exploration costs in accordance with the Unit of production method. Such amortisation has been carried out for the Tardan deposit since 2005. For Tardan, the calculation of the amortisation for the years 2005–2008 was based on gold reserves of 6.8 tonnes established in the early 1990s. In 2008, a new examination of reserves was carried out at Tardan and the established gold reserves were determined at 8.0 tonnes. These gold reserves have formed the basis for the calculation of the amortisation according to the unit of production method since 2009. For the the Staroverinskaya license area, gold reserves for the Bogomolovskoye deposit of 7.6 tonnes established in previous years was increased to 9.3 tonnes in 2010, which, together with the 7.5 tonnes of reserves at the Kozlovskoye deposit, forms the basis for the calculation of the amortisation for the Staroverinskaya license area according to the unit of production method.

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

An impairment test was carried out on the Group's productive gold assets as at 31 December 2011. The most significant portion of the intangible- and tangible fixed assets relates to the Tardan- and Staroverinskaya license areas. For this purpose, a

discounted cash flow model has been used extending over a 5-year period together with a consideration of the value of registered reserves. A number of variables are simulated in the model. Among the more important assumptions are the price of gold and the yield required. The base assumption regarding the price of gold during the period is a value of 1,700 USD/oz and the yield required is 15% per year. A number of other assumptions are also important. The result of the base assumptions is that no impairment is required at year-end 2011.

See Note 8 for further details.

Restoration costs

An obligation regarding future restoration costs arises when there is an environmental impact due to a mining operation in the form of exploration, evaluation, development or on-going production. The restoration costs are calculated on the basis of a restoration plan. The Group reviews its mine restoration provision annually. Significant estimates and assumptions are made in determining the provision for mine restoration, as there are numerous factors affecting the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates, and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts for which current provisions have been made. The provision at reporting date represents management's best estimate of the present value of the future restoration costs required.

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

See Note 19 for further details.

Impairment of assets

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

See Note 8 for further details.

Recovery of deferred tax assets

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

See Note 7 for further details.

Inventories

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

See Note 15 for further details.

Fair value of financial instruments

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

See Note 23 for further details.

Notes

Note 1 Other operating income and other operating expenses

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Other operating income				
Retroactive VAT reimbursement	–	5,009	–	5,009
Profit from sale of subsidiaries	11,858	29,131	–	7,762
Other operating income	6,317	1,698	198	670
Total other operating income	18,175	35,838	198	13,441
Other operating expenses				
Loss on disposals of fixed assets	-2,605	–	–	–
Bad debt expenses	-2,990	–	–	–
Other operating expenses	-10,671	–	–	–
Total other operating expenses	16,266	–	–	–

Profit from sale of subsidiaries

The profit from the sale of subsidiaries relates to the sale of LLC Artelj Lena (LLC Kara Beldyr and LLC Artelj Tyva), see note 24 for further information.

Retroactive VAT reimbursement

During the second quarter of 2010, the Parent Company managed to recover the Swedish input VAT relating to the entire period since incorporation. The total amount of VAT recovered amounted to TSEK 5,009.

Note 2 External expenses

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
External expenses				
Fuel	23,193	29,395	–	–
Materials	37,420	24,352	–	–
Mineral resources extraction tax	7,743	12,678	–	–
Exploration costs	11,506	18,153	–	–
Third party services	32,976	55,253	–	–
Audit fees	2,234	1,873	1,819	1,560
Other	18,486	11,930	9,767	5,449
Total external expenses	133,558	153,634	11,586	7,009

Audit fees

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
PwC				
Audit assignments	1,597	1,560	1,597	1,560
Auditing activities other than the audit assignment	40	–	40	–
Tax consultancy services	58	–	58	–
Other assignments	124	–	124	–
Total PwC	1,819	1,560	1,819	1,560
Other auditors				
Audit assignments	415	313	–	–
Auditing activities other than the audit assignment	–	–	–	–
Tax consultancy services	–	–	–	–
Other assignments	–	–	–	–
Total other auditors	415	313	–	–

Note 3 Employee benefit expenses

	Total 2011	of which Women	Total 2010	of which Women
Average number of employees				
Parent company in Sweden	2	2	1	1
Subsidiaries in Russia	726	135	915	118
Total for the Group	728	137	916	119
Number of employees at year-end				
Parent company in Sweden	1	1	1	1
Subsidiaries in Russia	494	89	726	93
Total for the Group	495	90	727	94
	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Salaries and remuneration in Sweden				
Board and CEO	1,050	40	1,050	40
Other employees	637	432	637	432
	1,687	472	1,687	472
Salaries and remuneration in Russia				
Board and senior executives	—	223	—	—
Other employees	67,323	57,458	—	—
	67,323	57,681	—	—
Total salaries and remuneration	69,010	58,153	1,687	472
Social security expenses				
Social security expenses in Sweden	465	148	465	148
Social security expenses in Russia	4,127	3,105	—	—
	4,592	3,253	465	148
Pension expenses, defined contribution plans				
Board and senior executives	—	20	—	—
Other employees in Russia	10,485	10,129	—	—
Other employees in Sweden	—	—	—	—
	10,485	10,149	—	—
Other employee benefit expenses	322	848	137	322
Total employee benefit expenses	84,409	72,403	2,289	942
	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Group – Board of Directors and CEO at year-end				
Women	—	1	—	1
Men	6	4	6	4
Group – Management at year-end				
Women	—	—	—	—
Men	2	3	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
Board of Directors				
Preston Haskell*, member	–	–	–	–
Lars Guldstrand, Chairman of the Board	250	–	–	–
Tom Baring, member	200	–	–	–
Niclas Eriksson, member	200	–	–	–
Nick Harwood, member	200	–	–	–
Gordon Wylie, member	200	–	–	–
Group management				
Preston Haskell, CEO*	–	–	–	–
Johan Arpe, CFO**	–	–	–	–

Board fees are paid to the board members as determined at the AGM, no other remuneration has been paid to the board members in 2011.

* The CEO and board member, Preston Haskell is also the majority shareholder of Central Asia Gold. He has not received any remuneration from the group during 2011.

** Johan Arpe has a consultancy agreement with CAG as CFO. During 2011 a total of TSEK 1,059 has been paid in consultancy fees for the services provided by Johan Arpe.

Note 4 Depreciation, amortisations and impairment

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Depreciation on buildings	-3,094	-3,519	–	–
Depreciation on machinery, equipment, and other technical plants.	-20,900	-17,023	–	–
Depreciation on machinery, equipment and other technical plants capitalised as part of Intangible fixed assets	2,952	1,261	–	–
Amortization of intangible non-current assets.	-4,496	-4,028	–	–
Total amortization and depreciation	-26,080	-23,309	–	–
Impairment of tangible fixed assets*	-21,165	–	–	–
Impairment of work in progress	-16,601	–	–	–
Total impairments	-37,766	–	–	–
Total amortization, depreciation and impairments	-63,846	-23,309	–	–

* The impairment amount includes TSEK 6,639 of advances paid to contractors for fixed assets.

Note 5 Financial income

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Interest income from Group companies	–	–	17,539	15,228
Other interest income	292	1,280	175	131
Exchange rate differences	142	–	–	–
Other financial income	32	–	32	–
Total financial income	466	1,280	17,746	15,359

Note 6 Financial expenses

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Exchange rate differences	-10,067	-2,827	-9,685	-512
Interest expenses on loans and borrowings	-11,536	-13,287	-7,851	-5,312
Interest expenses on leasing	-1,560	-1,837	–	–
Impairment of financial assets	-4,404	–	-4,404	–
Impairment of intercompany loans	–	–	-224,208	–
Total financial expenses	-27,567	-17,951	-246,148	-5,824

Note 7 Income tax and deferred income tax

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Current tax	-1,314	-2,354	–	-526
Deferred tax	9,183	-7,064	–	–
	7,869	-9,420	–	526
Connection between tax expense and reported profit/loss				
Pre-tax profit/loss	-128,265	17,108	-242,080	-10 713
Tax according to applicable tax rate	25,653	-3,422	63,667	2,818
Tax effect of expenses that are non-deductible for tax purposes	-2,941	-3,907	-60,137	-9
Tax effect of non-taxable income	2,401	3,211	29	1,146
Expenditure reported directly against equity	–	3,735	–	3,735
Tax effect of changes in previous years' taxation	–	-526	–	-526
Impairment of deferred tax assets/reversal of impaired deferred tax assets	-14,533	55	–	–
Difference between the Group's tax rate and the individual companies' tax rates	853	-876	–	–
Tax effect of loss carry-forwards for which deferred taxes recoverable are not reported:	-3,564	-7,690	-3,559	-7,690
	7,869	-9,420	–	-526

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

	Group 2011-12-31	Group 2010-12-31
Deferred tax recoverable relating to tax losses carried forward		
Incoming deferred tax recoverable	36,171	37,117
Disposal values from sold subsidiaries	–	-514
Change in deferred tax recoverable	22,402	-434
Impairment of deferred tax on tax losses carried forward	-14,533	–
Closing deferred tax recoverable	50,879	36,171
Total deferred tax recoverable	50,879	36,171

Currently, tax loss carry-forwards in the Parent Company are not reported as deferred tax assets in the balance sheet, as it is uncertain whether such tax losses can be utilised based on the managerial character of the Parent Company. The total tax losses carried forward in the parent company amounts to TSEK 82,118.

In the subsidiaries, deferred tax assets on tax losses carried forward are reported when it is probable that the subsidiary will generate sufficient taxable profits to utilise the tax losses within the foreseeable future. According to the Russian tax law, tax losses can be utilised within a period of 10 years from the year when the loss was incurred.

In the CAG Group, only two Companies have material amounts of deferred tax assets: LLC Tardan Gold and LLC GRE-324. The majority of the deferred tax asset relating to these tax losses carried forward can be utilised until 2017. Based on the forecast for LLC Tardan Gold, the company will generate taxable profits that enable the deferred tax asset on their tax losses carried forward to be utilised within 3 years. For LLC GRE 324, the forecast is uncertain and hence an impairment of TSEK 14,533 of deferred tax on the tax losses carried forward for GRE 324 has been made.

	Group 2011-12-31	Group 2010-12-31
Deferred tax liabilities with regard to temporary differences		
Opening liability for deferred tax on the acquired mining licenses and capitalised work for own account	31,396	31,033
Acquisition values from acquired subsidiaries	—	—
Disposal values from sold subsidiaries	—	-1,344
Change in deferred tax liability on the acquired mining licences and capitalised work for own account	230	1,707
Closing deferred tax liability on the acquired mining licences and capitalised work for own account	31,626	31,396
Opening deferred tax liability on the acquired non-current assets	14,174	8,900
Disposal values from sold subsidiaries	-10,052	—
Change in deferred tax liability on the acquired non-current assets	14,570	5,274
Closing deferred tax liability on the acquired non-current assets	18,692	14,174
Total deferred tax liability	50,318	45,570

Deferred tax is calculated on the difference between reported values and taxable values of assets and liabilities.

There is no deferred tax attributable to items reported directly in equity.

Note 8 Mining permits and capitalised exploration costs

	Group 2011-12-31	Group 2010-12-31	Parent Company 2011-12-31	Parent Company 2010-12-31
Opening balance	161,353	152,242	392	392
Disposal values of sold subsidiaries	—	-6,721	—	—
Capitalized provision for site restoration	4,081	—	—	—
Translation difference	1,498	-2,320	—	—
Acquisitions and capitalised exploration costs	4,112	18,153	—	—
Closing balance accumulated value	171,044	161,353	392	392
Opening balance amortisations and write-downs	-7,052	-3,024	-392	-392
Amortisation for the period	-4,496	-4,028	—	—
Closing balance accumulated amortisation	-11,548	-7,052	-392	-392
Closing net book value	159,496	154,301	—	—

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

An impairment test was carried out on the Group's productive gold assets as at 31 December 2011. The most significant portion of the intangible assets refers to the Tardan license area and the Staroverenskaya license area. The key assumptions applied in the test were the price of gold during the test period of 1,700 USD/oz, and a required yield of 15% per year. The result of the impairment tests was that no impairment of the intangible assets was required as at 31 December 2011.

Note 9 Buildings and land

	Group 2011-12-31	Group 2010-12-31
Opening balance	34,132	43,020
Purchases	1,825	6,605
Completion of ongoing construction work	–	172
Disposal values of sold subsidiaries	-3,490	-6,971
Reclassifications	-9,336	–
Disposal sales	–	-5,928
Translation difference	2,393	-2,766
Closing balance accumulated acquisition values	25,525	34,132
Opening balance	-5,854	-4,437
Disposal values of sold subsidiaries	90	989
Disposal sales	–	286
Reclassification	3,348	–
Translation difference	-135	827
Depreciation for the financial year	-3,094	-3,519
Closing balance accumulated depreciation	-5,646	-5,854
Closing net book value	19,879	28,278

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

Note 10 Machinery, equipment and other technical plants

	Group 2011-12-31	Group 2010-12-31	Parent Company 2011-12-31	Parent Company 2010-12-31
Opening balance	82,671	82,675	25	25
Purchases and completion of construction in progress	66,268	29,731	–	–
Disposal values of sold subsidiaries	-8,276	-13,744	–	–
Reclassifications	20,770	–	–	–
Disposal sales	-1,159	-5,960	–	–
Translation difference	-5,682	-10,029	–	–
Closing balance accumulated acquisition values	154,592	82,671	25	25
Opening balance	-20,984	-24,550	-25	-25
Disposal values of sold subsidiaries	4,635	13,580	–	–
Disposal sales	566	1,057	–	–
Reclassifications	-14,782	–	–	–
Translation difference	-1,992	5,950	–	–
Depreciation for the year	-20,900	-17,023	–	–
Impairment for the year	-3,488	–	–	–
Closing balance accumulated depreciation and impairments	-56,945	-20,984	-25	-25
Closing balance book value	97,647	61,687	–	–

Note 11 Construction in progress

	Group 2011-12-31	Group 2010-12-31
Opening balance	53,122	4,649
Acquisition values of acquired subsidiaries	–	–
Completion of ongoing construction work	-24,223	-172
Purchases during the year	97,857	51,896
Translation difference	-3,879	-3,250
Impairment for the year	-11,038	–
Closing balance book value	111,839	53,122

Construction in progress at the end of 2011 is comprised mainly of the not yet completed heap leaching plant at Tardan and associated infrastructure. It is expected that the plant will be fully commissioned by the summer of 2012.

During 2011, weaknesses in construction work performed was noted which lead to an impairment of TSEK 11,038.

Note 12 Shares in group companies

	Parent Company 2011-12-31	Parent Company 2010-12-31
Opening balance	443,993	429,915
Formation of subsidiaries	–	413
Additional investments in subsidiaries (LLC Kara-Beldyr)	–	17,406
Sale of subsidiary*	–	-21,517
NMC acquisition costs	–	8,884
Equity contributions provided	–	8,892
Closing book value	443,993	443,993

Subsidiary	Co. ID	Regd office	Equity and share of votes	Book value 2011-12-31	Book value 2010-12-31
LLC Tardan Gold	1041700563519	Kyzyl	100%	250,301	250,301
LLC Uzhunzhul*	1071901004746	Abakan	100%	–	–
LLC GRE-324	1037542001441	Chita	100%	39,115	39,115
LLC Solcocon	1077530000239	Chita	100%	25,359	25,359
LLC Borservice	1077536005601	Chita	100%	105	105
LLC Gold Borziya	1077530001174	Krasnochamensk	100%	29,248	29,248
LLC Rudtechnologiya	1077530000570	Krasnochamensk	100%	99,453	99,453
LLC Management Company CAG	1097746422840	Moscow	100%	413	413
LLC CAG Promstroy*	1107746472525	Moscow	100%	–	–
Total				443,994	443,994

* The subsidiaries LLC Uzhunzhul and LLC CAG Promstroy are indirectly owned through the subsidiaries LLC Tardan Gold and LLC Management Company CAG, hence there is no book value for these companies in Central Asia Gold AB. The subsidiary LLC Artelj Lena, that was sold during the year, was indirectly owned through LLC Tardan Gold.

The investment in subsidiaries represent a significant portion of the assets in the parent company and impairment tests are regularly carried out by the board and management of CAG AB in order to assess that the recoverable value of these assets is not lower than their reported values. The impairment test is carried out through the application of discounted cash flow model. The model is sensitive to a number of variables and assessments, with some of the more important being the price of gold and the yield required. Based on the impairment tests performed as at December 31, 2011, the board and management has not identified any need for impairment of the shares in subsidiaries.

Note 13 Shares and investments in joint ventures

Company	Co. ID	Regd office	Equity and share of votes	Group 2011-12-31	Group 2010-12-31	Parent company 2011-12-31	Parent company 2010-12-31
Awilia Enreprises Limited	270158	Limassol, Cyprus	50%	28,919	24,652	22,216	16,924
Total				28,919	24,652	22,216	16,924

	Group 2011-12-31	Group 2010-12-31	Parent company 2011-12-31	Parent company 2010-12-31
Changes in book value of the joint venture				
Opening balance	24,652	–	16,924	–
Formation of joint venture	–	19,566	–	11,437
Investment in joint venture	5,292	5,487	5,292	5,487
Profit/loss from joint venture	-1,025	-401	–	–
Closing balance	28,919	24,652	22,216	16,924

Awilia Enterprises Ltd. Is a joint venture company with Centerra Gold Inc. Awilia owns 100% of LLC Kara Beldyr, the company that owns the Kara Beldyr license area and in which the joint venture operations are carried out in Russia. In January 2012, Centerra Gold Inc. fulfilled the second phase of investments in the joint venture by investing MUSD 4, thereby earning another 20% ownership in the joint venture. In total, Centerra Gold Inc. has invested MUSD 6.5 into the joint venture. CAG's ownership in Awilia as of the reporting date is hence 30% and the intentions of CAG is to keep this share of the joint venture and continue to be involved in the future exploration of the Kara Beldyr license area.

Note 14 Loans to subsidiaries

	Parent Company 2011-12-31	Parent Company 2010-12-31
Opening balance	274,563	89,085
Loans granted during the year	178,057	190,290
Accrued interest	17,539	17,472
Translation difference	-4,732	-22,284
Reclassification of loans no longer being intercompany loans*	-4,107	–
Provision for impairment	-224,205	–
Closing book value	237,111	274,563

* During 2011, the subsidiary LLC Artelj Lena was sold and the loan granted to this company has been reclassified to other financial assets. Due to the uncertainty of repayment of the loan upon maturity, a provision for impairment of the loan has been made at December 31, 2011.

Loans to subsidiaries represent a significant part of the assets in the Parent Company, and impairment tests are regularly carried out by the management of the Parent Company in order to determine that the recoverable value of these assets is not lower than their reported values. The impairment test performed at December 31, 2011 has indicated a need for impairment of loans granted to the subsidiaries LLC GRE 324, LLC Solcocon, LLC Rudtechnologiya, LLC Burservice and LLC Gold Borzya in a total amount of TSEK -224,205 (TSEK 0).

Note 15 Inventories

	Group 2011-12-31	Group 2010-12-31
Raw materials*	20,517	54,449
Ores and concentrates	111,800	98,600
Pure gold	648	3,418
Work in progress*	20,655	9,717
Other	–	1,588
Total	153,620	167,772

* The impairment of raw materials during 2011 was TSEK 3,129 (TSEK 2,097) and the impairment of work in progress was TSEK 16,601 (TSEK 0).

The cost of inventories reported as expenses and included in 'external expenses' in 2011 amounted to TSEK 60,613 (TSEK 60,781)

Note 16 Other current receivables and prepaid expenses

	Group 2011-12-31	Group 2010-12-31	Parent Company 2011-12-31	Parent Company 2010-12-31
Other current receivables	9,339	4,124	59	209
VAT recoverable*	19,806	48,987	254	365
Total other current receivables	29,146	53,111	313	574

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

Prepaid expenses	12,392	33,026	89	67
Total prepaid expenses	12,392	33,026	89	67

The prepaid expenses mainly consist of advances provided to constructors and suppliers of equipment for the new Heap leaching plant under construction at Tardan

Note 17 Cash and bank holdings

Cash and cash equivalents of TSEK 10,995 (TSEK 22,230) relates to Group cash and bank balances. In the Parent Company, cash and cash equivalents of TSEK 8,119 (TSEK 10,945) relates similarly to cash and bank balances.

An exchange rate gain of TSEK 428 (ITSEK 337) refers to exchange rate gain in cash and cash equivalents for the Group and a gain of TSEK 420 (loss TSEK -1,052) for the Parent Company.

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

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

a) Before dilution

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

	Group 2011	Group 2010
Profit/loss attributable to the Parent Company's shareholders (TSEK)	-119,325	7,964
Weighted average number of ordinary shares outstanding*	16,652,603	5,026,107
Earnings per share, SEK	-7.17	1.58

* After the new share issuances in 2010, a reversed split of shares 10:1 was carried out changing the quotient value from SEK 1,125 to SEK 11,25. The number of shares for 2010 above has been adjusted for the reversed split.

b) After dilution

At year-end 2011, there are 510,650,000 outstanding warrants with the right to subscribe for 1,315,000 shares. 250,000 shares has a strike price of SEK 221.10 per share with last date of exercising in January 2012. 1,065,000 shares have a strike price of SEK 25 per share and are exercisable until August 2012. The warrants with last date of exercising in January 2012 expired without any warrants being exercised. The warrants exercisable till August 2012 relates to a warrant program for employees of the group. The warrants in this program has not been allocated to any employees and it is the aim of the board of directors to suggest to the shareholders on the AGM to cancel these warrants. Further, the price per share on the stock market at year-end is lower then the strike price of the warrants. Hence there is no dilution as a consequence of these outstanding warrant and the weighted average number of shares outstanding after dilution is the same as before dilution.

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

At the 2011 and 2010 year-ends, the number of shares outstanding was as follows.

	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Number of shares				
Opening balance*	16,016,987	1,765,312	16,016,987	1,765,312
New share issues during the period*	1,600,000	14,251,675	1,600,000	14,251,675
Number of shares outstanding at each year-end	17,616,987	16,016,987	17,616,987	16,016,987
Share capital (Quotient value SEK 11,25 per share)	198,191,104	180,191,104	198,191,104	180,191,104

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

CAG completed a rights issue in July 2011. CAG's number of shares increased by 1,600,000 through the rights issue, which corresponds to an increase in share capital of TSEK 18,000.

The share capital limits at the 2011 year-end according to the articles of association were not less than TSEK 150,000 and not more than TSEK 600,000. The limit for number of shares was not less than 15,000,000 and not more than 60,000,000. The number of authorised and fully paid shares at the year-end 2011 is 17,616,987.

	Group 2011	Group 2010
Share capital	198,191	180,191
Additional paid in capital	155,819	143,705
Translation difference reserve	-18,143	-11,404
Retained earnings, including profit/loss for the year	-27,836	91,614
Total equity attributable to the Parent Company's owners	308,031	404,106
Equity per share, SEK	17.48	25.23

Note 19 Provisions

	Group 2011-12-31	Group 2010-12-31
Opening provision for restoration costs	5,599	5,228
Disposal values of sold subsidiaries	-1,004	-699
Additional provisions during the year	5,666	1,070
Total provisions	10,261	5,599
Allocation of provisions for restoration costs by licence area		
Tardan license area	7,236	4,518
Artelj Lena license area	—	1,004
Staroverenskaya license area	3,025	77
Total provisions	10,261	5,599

The provision for restoration costs referring to the Tardan license area is estimated to be utilised at the end of the mining license period, 2028. The provision relating to the Staroverenskaya license area is estimated to be utilized at the end of the mining license period, 2029.

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

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

Note 20 Accrued expenses

	Group 2011-12-31	Group 2010-12-31	Parent Company 2011-12-31	Parent Company 2010-12-31
Accrued fees	1,200	672	1,200	672
Accrual for employee benefit expenses	823	6,977	823	105
Accrued interest	5,771	—	5,771	—
Other accruals	3,968	—	3,968	—
Total	11,762	7 649	11,762	777

Note 21 Pledged assets and contingent liabilities

	Group 2011-12-31	Group 2010-12-31	Parent company 2011-12-31	Parent company 2010-12-31
Pledged assets				
Fixed assets	119,006	53,336	—	—
Net assets of pledged subsidiaries (excluding directly pledged fixed assets)	69,810	—	—	—
Shares in subsidiaries	—	—	289,415	125,150
Receivables on subsidiaries	—	—	116,420	122,865
Pledged bank accounts	50	50	50	50
Total	188,866	53,386	405,885	248,065
	Group 2011-12-31	Group 2010-12-31	Parent company 2011-12-31	Parent company 2010-12-31
Contingent liabilities				
Contingent commitments to suppliers and contractors	—	31,436	—	—
Payment commitment for subsidiary bank loans	—	—	79,550	106,762
Total	—	31,436	79,550	106,762

Note 22 Adjustments for non-cash items

	Group 2011-12-31	Group 2010-12-31	Parent Company 2011-12-31	Parent Company 2010-12-31
Depreciation and amortizations	26,081	23,309	—	—
Impairment/write-downs	37,766	—	—	—
Loss on sale of fixed assets	2,605	—	—	—
Income from sale of subsidiaries	-11,858	-29,132	—	-7,762
Other	5,871	-316	—	-630
Total	60,465	-6,139	—	-8,392

Note 23 Financial assets, liabilities and risks

This note contains disclosure information regarding financial assets and liabilities including the risks in these financial instruments that the group is exposed to.

Financial instruments categories, classifications and holdings

The Group classifies its financial assets and liabilities in the following categories; financial assets valued at fair value via the income statement, loans and trade receivables, financial assets that can be sold and other financial liabilities. Financial assets held for trading reported in the balance sheet are valued at the closing day rate. The Group currently has no assets classified as financial assets valued at fair value via the income statement.

Financial assets that can be sold are continuously measured at fair value and changes in fair value are reported in equity under other comprehensive income. The Group currently has no assets classified as Financial assets that can be sold. Other financial liabilities relate to accounts payable to suppliers, other short-term interest-bearing liabilities and other long-term interest-bearing liabilities.

Financial Liabilities disclosures

Long-term loans and short-term loans

	Group 2011-12-31	Group 2010-12-31	Parent Company 2011-12-31	Parent Company 2010-12-31
Loans from shareholder	—	—	—	—
Loan from Centerra Gold Inc. under joint venture agreement	14,020	5,504	14,020	5,504
Other loans	4,345	1,255	894	894
Lease liability	5,575	3,354	—	—
Total long-term loans	23,940	10,113	14,914	6,398
Loans from shareholder	159,931	—	159,931	—
Bank loans	64,282	106,762	—	—
Other loans	1,105	364	—	—
Lease liability	8,874	6,409	—	—
Total short-term loans	234,193	113,535	159,931	—

Finance lease liabilities are payable as follows:

	Group 2011-12-31 Minimum lease payments	Group 2011-12-31 Interest	Group 2011-12-31 Present value of payments
Less than one year	10,352	1,477	8,874
Between one and five years	6,067	492	5,575
Total	16,418	1,969	14,449

Distribution of long-term and short-term loans by currency is presented below:

	Group 2011-12-31	Group 2011-12-31 Effective interest rate	Group 2010-12-31	Group 2010-12-31 Effective interest rate
Long-term loans received, SEK	—	—	—	—
Long-term loans received, RUR	3,451	0%	361	0%
Long-term loans received, USD	14,020	0%	5,504	0%
Interest payable, USD	—	—	—	—
Interest payable, RUR	—	—	—	—
Interest payable, SEK	894	—	894	—
Total long-term loans	18,365	0%	6,759	0%
Short-term loans received, RUR	65,348	13%	106,996	13%
Short-term loans received, USD	159,931	13–18%	—	—
Short-term loans received, SEK	—	—	—	—
Interest payable, RUR	40	—	130	—
Interest payable, USD	5,771	—	—	—
Interest payable, SEK	—	—	—	—
Total short-term loans, including interest payable	231,090		107,126	
Total loans received, including interest payable	249,455		113,885	

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

	2012	2013	2014
Bank loans	64,282	—	—
Loans from shareholder	159,931	—	—
Loan from Centerra Gold Inc. under joint venture agreement	—	14,020	—
Other loans	1,105	4,345	—
Lease liability	10,352	6,067	—
Total	235,670	24,432	—

Management is continuously working with the financing of the Group's activities and it is the opinion of the Board of Directors that the Group will be able to refinance the bank loans and loans from shareholders with maturity during 2012.

Accounts payable

	2011-12-31 Fair value	2011-12-31 Carrying amount	2010-12-31 Fair value	2010-12-31 Carrying amount
Accounts payable to suppliers	13,527	13,527	31,041	31,041
Loans received	234,193	234,193	113,885	113,885
Lease liability	14,449	14,449	9,763	9,763
Total other financial liabilities	262,169	262,169	154,689	154,689

Maturity structure of financial liabilities as at 31 December 2011:

	> 1 year from reporting date	> 1 year but < 5 years from reporting date	> More than 5 years
Accounts payable to suppliers	13,527	—	—
Loans received	234,193	—	—
Lease liabilities	8,874	5,575	—
Total financial liabilities	256,594	5,575	—

Interest rates for lease liabilities are fixed. Interests rates on loans received from banks and shareholders are fixed during the terms of the loan and the Group is, therefore, not currently directly exposed to an interest rate risk. If the bank were to change the fixed interest rate on the loans received during the terms of the loans, an increase in the interest rate from 13 per cent to 18 per cent would increase the yearly interest expense by TSEK 3,214. The bank loans mature during the second half of 2012. The loans from shareholders mature in the second half of 2012 and are at fixed interest rates between 13–18% per annum.

Financial assets disclosures**Cash, cash equivalents and trade receivables**

	2011-12-31 Fair value	2011-12-31 Reported value	2010-12-31 Fair value	2010-12-31 Reported value
Cash and cash equivalents in SEK	1,880	1,880	10,945	10,945
Cash and cash equivalents in Euro	–	–	–	–
Cash and cash equivalents in USD	6, 239	6,239	–	–
Cash and cash equivalents in RUR	2,876	2,876	11,285	11,285
Total cash and cash equivalents	10,995	10,995	22,230	22,230

	2011-12-31 Fair value	2011-12-31 Reported value	2011-12-31 Maximum credit risk	2010-12-31 Fair value	2010-12-31 Reported value	2010-12-31 Maximum credit risk
Accounts receivable	986	986		2,467	2,982	
Less, provision for impairment of accounts receivable		–			–	-515
Accounts receivable, net	986	986	986	2,467	2,467	2,467
Other current receivables	9,339	9,339	9,339	4,124	4,124	4,124
Total cash and cash equivalents	10,995	10,995	–	22,230	22,230	–
Total accounts receivable and loans receivable	21,320	21,320	10,325	28,821	28,821	6,591

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

	Group 2011	Group 2010
As at January 1	3,069	1 099
Receivables written off during the year	-2,990	–
Provision for impairment of receivables	–	2,153
Translation difference	28	-183
As at December 31	107	3,069

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

Policy for the management of financial risks

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

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

a1) Currency and gold price risk

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

Currency exposure and analysis

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

The functional currency of the subsidiaries is Russian rouble, the reporting currency is SEK. Assets and liabilities are translated from the functional currency to the reporting currency at the closing rate of 0,21535 SEK per Rouble (0,22319), income and expenses are translated using the average rate of 0,22104 SEK per Rouble (0,2367). The translation differences are recognised as a separate component of other comprehensive income and the cumulative effect is included in other reserves in shareholders' equity.

Financial assets and liabilities by currency:

	2011-12-31 SEK	2011-12-31 RUR	2011-12-31 USD	2011-12-31 Total
Cash and cash equivalents	1,880	2,876	6,239	10,995
Accounts receivable	—	986	—	986
Loans receivable	—	—	—	—
Total financial assets	1,880	3,862	6,239	11,981
Loans, including interest payable	-894	-64,322	-179,722	-244,938
Financial lease	—	-14,449	—	-14,449
Accounts payable	-148	-13,379	—	-13,527
Total financial liabilities	-1,042	-92,150	-179,722	-272,914
Net financial items	838	-88,288	-173,483	-260,933

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

	RUR 2011-12-31	RUR 2011-12-31	USD 2011-12-31	USD 2011-12-31
Changes in exchange rate, %	Effect on loss before income tax	Changes in exchange rate, %	Effect on loss before income tax	
+10%	-8,829	+10%	-17,348	
-10%	+8,829	-10%	+17,348	

Price risk analysis

The table below presents an estimate of the impact on the profit/loss of changes in market conditions one year in the future, based on the reporting date conditions as at 31 December 2011. The estimate is based on an assumed production volume of 800 kg pure gold during 2012, while the production target for 2012 is currently 700-900 kg pure gold. The reporting date conditions for 2012 include a gold price of 1 650 USD/oz and a USD/SEK exchange rate of 6.8.

Change in price of gold in USD by:	Effect on operating profit/loss
+10%, other things being equal	28,862
-10%, other things being equal	-28,862

a2) Time lapse

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

a3) Translation exposure

When translating the foreign Group companies' net assets (equity and surplus value allocated Group wise to subsidiaries abroad) to Swedish krona, a translation difference arises in conjunction with exchange rate fluctuations, and this has an effect on the Group's equity. At present,

Central Asia Gold does not take measures to protect itself against the effect of this exposure. The Group's equity can, consequently, both increase and decrease as a consequence of translation exposure.

a4) Interest rate risk

The Group has both interest-bearing and non-interest bearing loans. Interest-bearing loans refer to short-term rouble loans in Russian banks (Svyaz bank) and loans from shareholders/related parties. Non-interest bearing loans refer to loans received from Centerra Gold for the financing of Kara-Beldyr and, also, to accounts payable, taxes, salaries and accrued expenses etc. Currently, all interest-bearing loans have fixed interest rates during the terms of the loans and, in that respect, fluctuations in market interest rates have no immediate effect on the Group. The risk of the Russian bank changing the fixed interest rate during the terms of the loans is outside management's control.

b) Credit risk

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

With respect to pure gold sales, there are generally no bad debts. The purchasers are comprised of the large, licensed, gold purchasing Russian banks. Payment is usually received within 30 days. CAG has quite small amounts of accounts receivable to other parties than the Russian banks that are subject to bad debt risks. Provisions for bad debt are made based on individual estimations of possible payments from each counter party.

c1) Liquidity risk

Central Asia Gold AB is at an early development stage, and, therefore, requires continued high levels of capital expenditure. Funds for these investments cannot only be gained from internally generated income. The Company's growth, therefore, remains dependent on external

financing. External financing may be received in the form of borrowing or via an injection of equity. For companies at an early stage, equity financing is the most common method. Since its formation, the Company has implemented preferential or directed new issues on several occasions. Successful implementation of share issues is, however, to a large extent, dependent on the market climate. However, external financing in the form of bank loans has become, for Central Asia Gold, one of the most important sources of working capital and has also ensured investment activity growth. Having a positive credit history, CAG has strengthened its relationships with the banks, which allows for confidence as regards further successful cooperation.

As can be seen in the table above regarding the distribution between long-term and short-term loans and the maturity analysis of loans, the total amount of loans with maturity in 2012 amounts to TSEK 235,670. It is the opinion of the board of directors of CAG that the Group will be able to refinance the bank loans and loans from shareholders that matures during 2012.

c2) Capital risk

Issues concerning capital risk, optimum capital structure and the cost of capital are central in all companies. The Board of CAG AB always tries to optimise the cost of capital. However, in accordance with the above, it must also take into account that, at present, the Group is at an early stage of development and the equity/assets ratio must, consequently, be maintained at a relatively high level. The Board of Directors currently considers that the equity ratio of the Group, at least during the start-up phase (before large-scale production has started) shall be a minimum of 50%. The ratio may be reduced at a later stage. As at year-end 2011, the Group's equity/assets ratio, including minority share of equity, is at 45.6%, which is not considered satisfactory. The board of directors of CAG are working actively to strengthen the balance sheet and the solidity of the group.

Note 24 Business combinations

Acquisitions

Acquisitions in 2011

The Group has not acquired any subsidiaries during 2011. A new subsidiary, LLC CAG Promstroy was started by the subsidiary LLC Management Company CAG during the year in order to serve as a general contractor for the construction of the Heap Leaching plant at Tardan.

Acquisitions in 2010

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

Sales

Sale of subsidiaries in 2011

During 2011, the Group disposed of all its shares in LLC Artelj Lena. The sale of LLC Artelj Lena was made in two tranches to LLC Sibirskoe Zoloto for a total consideration of TSEK 21,726 (MRUB 100). The disposal resulted in the following derecognition from CAG's consolidated balance sheet.

	Amounts in TSEK
Property, plant and equipment	7,041
Financial fixed assets	69
Inventory	48,056
Other current assets	29,628
Cash	260
Long term liabilities	-10,052
Current liabilities	-65,134
Proceeds from sales	21,726
Gain on disposal	11,858
Impact on consolidated cash flow	21,466

Sale of subsidiaries in 2010

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

Sale of LLC Artelj Tyva

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

The purchase price received was TSEK 2,344.

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

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

Sale of Kara-Beldyr

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

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

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

Note 25 Non-controlling interests

All subsidiaries owned at year-end 2011 are 100% owned by CAG hence there are no non-controlling interests in the Group as of December 31, 2011. The net result for the year 2011 of -1,071 attributable to non-controlling interest relates to the non-controlling interests part of the net result of the subsidiary LLC Artelj Lena until it was sold in July, 2011. Net result attributable to non-controlling interest in 2010 amounted to -276 and the non-controlling interest as of December 31, 2010 was 1,405. The non-controlling interest in 2010 also referred to LLC Artelj Lena.

Note 26 Transactions with related parties

The majority shareholder and the ultimate parent of CAG AB is Bertil Holdings Limited owning approximately 53% of the shares in the Company. Bertil Holdings Limited is a company controlled by the CEO, Preston Haskell who is CAG's ultimate controlling party. The remaining 47% of the shares in CAG are held among approximately 3 500 shareholders.

Sales to related parties

CAG has during 2011 not sold any goods and services to any related parties. In 2010 goods and services was sold to companies related to the ultimate controlling party, Preston Haskell and to companies related to former Board Member, Maxim Kondratyukin. All sales have been made on the basis of normal market conditions.

Purchases from related parties

Services, materials and equipment

During 2011, materials for an amount of TSEK 31, has been purchased from companies related to the ultimate controlling party. In 2010, equipment was rented and subsequently purchased by CAG subsidiaries from companies related to the ultimate controlling party.

In 2010, exploration services were purchased from companies related to the former Board Member, Maxim Kondratyukin.

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

Management services

During 2011, Central Asia Gold also purchased management services amounting to TSEK 1,059 (TSEK 894) from management personnel in Sweden.

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

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

These management services have been purchased on normal market conditions.

Financing

During 2011, CAG AB has been provided with four loans from a company related to the ultimate controlling party in a total amount of TSEK 159,931. The interest rate on the loans vary from 13% to 18% and as security for part of the loans, 50% of the shares in the subsidiary LLC

Tardan Gold and 100% of the shares in the subsidiary LLC Uzhunzhul is pledged. All loans are denominated in USD. The table below specifies the loans received from related parties.

Loan	Loan amount in USD	Loan amount in TSEK	Interest rate	Accrued interest at December 31, 2011 (TSEK)	Security	Maturity
Loan 1	3,600,000	24,340	16%	1,005	100% of the shares in LLC Uzhunzhul	September, 2012
Loan 2	2,500,000	17,384	16%	698	100% of the shares in LLC Uzhunzhul	September, 2012
Loan 3	13,000,000	90,394	18%	3,570	Secondary pledge of 50% of the shares in LLC Tardan Gold and 100% of the shares in LLC Uzhunzhul	September, 2012
Loan 4	4,000,000	27,813	13%	498	50% of shares in LLC Tardan Gold	September, 2012
Total	23,100,000	159,931		5,771		

Apart from the above mentioned loans and accrued interest, there are some receivables TSEK 1,457 (TSEK 2,911) and liabilities TSEK 4,929 (TSEK 1,382) referring to previous years transactions with companies related to the ultimate controlling party.

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

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

	Group 2011	Group 2010
Sales to related parties:		
Sales to companies related to the ultimate controlling party	–	580
Sales to companies related to Board members	–	180
Financial income from related parties:		
Interest received from companies related to the ultimate controlling party	71	65
Purchases from related parties:		
Purchases from companies related to the ultimate controlling party	31	18,868
Purchases from companies related to Board members	–	7,323
Purchases from management personnel	1,059	894
Interest expenses to related parties:		
Interest to companies controlled by the ultimate controlling party	7,429	1,452
Balances with related parties at the end of the year		
Receivables from		
Companies related to the ultimate controlling party	1,216	2,911
Companies related to Board members	–	1,012
Liabilities to		
Companies related to the ultimate controlling party	177,055	1,382

Note 27 Restatement of prior years' parent company accounts

As of January 1, 2010, the group changed its policy for reporting exchange rate gains and losses arising on intercompany loans to be reported as a component of other comprehensive income instead of a part of financial items in the income statement due to their character of net investment in foreign operations. The change in the group accounting policy also affects the accounting of the exchange rate differences in the parent company accounts, where these differences are reported in a fair value reserve (translation difference reserve) in equity, instead of in financial items in the income statement. The change in value is reported in the parent company's other comprehensive income.

With regards to the above, the income statement, balance sheet and statement of changes in equity for the parent company has been restated for 2010. The restatement has effect on the reported net income for the parent company, but not on the total equity reported, see table below.

Amount in TSEK	Effect on financial items	Effect on net income	Effect on fair value reserve	Effect on other comprehensive income/retained earnings	Effect on total equity
Opening balance 2009			-6,406	+6,406	0
Q 1 2010	+1,470	-1,470	-1,470	+1,470	0
Q 2 2010	+4,499	-4,499	-4,499	+4,499	0
Q 3 2010	+20,656	-20,656	-20,656	+20,656	0
Q 4 2010	-1,939	+1,939	+1,939	-1,939	0
2010	+24,686	-24,686	-24,686	+24,686	0

Note 28 Significant events after the reporting period

Development in Kara Beldyr Joint Venture

In January 2012, Centerra Gold Inc. ("Centerra") completed the second phase of investments in the Kara Beldyr joint venture and thereby earned another 20% ownership in the Kara Beldyr joint venture. In total Centerra has invested 6.5 MUSD into the project. CAG's ownership in the Kara Beldyr joint venture is after the completion of the second phase 30%, and CAG intends to keep this share of the joint venture and will continue to be involved in the future exploration of the area.

Further, on February 10 2012, Centerra presented a preliminary resource estimate for the Gord Zone of the Kara Beldyr joint venture with an indicated resource of 289,000 ounces of contained gold and an inferred resource of 211,000 ounces of contained gold. The resource estimate was prepared and classified in accordance with the standards defined by the Canadian Institute of Mining, Metallurgy and Petroleum, 2010 Definition Standards for Mineral Resources and Mineral Reserves (CIM) adopted by National Instrument 43-101 Standards of Disclosure for Mineral Projects (NI 43-101).

Changes in the board of directors of Central Asia Gold AB (publ.)

The board member Gordon Wylie, resident in South Africa, has for personal reasons left the board of directors of CAG as of April 24, 2012. Gordon Wylie will not be replaced, a new board of directors will be appointed on the AGM on May 24, 2012.

New bridge loan from related party

On April 25, 2012, CAG AB received another short-term bridge loan of up to MUSD 4 (approx. MSEK 27) from Golden Impala Ltd., a company related to the majority shareholder Preston Haskell. The interest rate on the loan is 18% p.a., to be paid in quarterly arrears, and the principal amount matures on October 1, 2012.

Board assurance

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

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

Stockholm, April 26, 2012

Lars Guldstrand
Chairman of the Board

Preston Haskell
Chief Executive Officer
Board member

Tom Baring
Board member

Niklas Eriksson
Board member

Nick Harwood
Board member

Gordon Wylie
Board member

The annual report and the consolidated financial statements have, as stated above, been approved for issue by the Board on April 26, 2012. The Group's income statement and balance sheet, and the Parent Company's income statement and balance sheet will be subject to ratification at the annual general meeting on May 24, 2012.

Our audit report was submitted on April 26, 2012

Öhrlings PricewaterhouseCoopers AB

Martin Johansson
Authorised Public Accountant

Auditor's report

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

corporate identity number 556659-4833

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Central Asia Gold AB (publ) for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 20–65.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Central Asia Gold AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of

Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, April 26, 2012

Öhrlings PricewaterhouseCoopers AB

Martin Johansson
Authorised Public Accountant

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