

Oxus Gold Plc

**Annual Report & Accounts
2010**

CHAIRMAN'S STATEMENT

Firstly please accept my apologies for the delay in presenting the annual report and accounts to shareholders. As you will be aware from well publicised announcements this was due to not being able to access relevant information from Amantaytau Goldfields (AGF), our 50% owned joint venture in Uzbekistan, required to finalise the accounts of the Oxus Group.

Looking back at 2010 Oxus had at the beginning of the year progressed discussions with a Chinese Consortium to a point where on 6 January 2010 it entered into a US\$185 million financing agreement which would have enabled Oxus to build and develop the underground Sulphide mine for AGF in Uzbekistan.

Despite an extensive due diligence undertaken by the Consortium which indicated the strong viability of constructing and developing the mine, it became obvious by late 2010 that even though the investment was to be made at the level of Oxus Gold, the Uzbek government would not welcome the development of a gold mine in Uzbekistan by Chinese investors.

Both I and senior management of the company consider the Uzbek position as very short-sighted. An inward investment of up to \$185 million would have been positive for the Uzbek gold mining industry and would have created employment opportunities for people in the region of the proposed mine. As a consequence of the Uzbek government's negative reaction to the transaction, the Chinese Consortium terminated their agreement with Oxus in December 2010. This had the effect of impairing Oxus's liquidity and operational capabilities in Uzbekistan.

Events following the withdrawal of the Chinese Consortium led our directors to believe that it would be in the best interest of shareholders to sell the 50% shareholding in AGF to the Uzbek government. Despite assurances that a buy-out by Oxus' Uzbek joint venture partners was in principle acceptable to the Uzbek government, Oxus then faced an ongoing attack campaign against it by the Uzbek government. These attacks included Uzbekistan's failure to issue certain licences to AGF, a frivolous court action initiated by the Uzbek Ministry of Finance, and pressure from Oxus' Uzbek joint venture partners to liquidate AGF despite AGF under trying circumstances producing a profit of US\$4.82 million for the twelve months to 31 December 2010.

The attacks against Oxus continued into 2011, with the first quarter marked by an arbitrary and onerous Uzbek government audit of AGF that effectively excluded Oxus from its investment in Uzbekistan. Oxus and AGF personnel fled the country over legitimate concerns about their safety, and Oxus was forced to declare force majeure as to its management obligations toward AGF.

Also in 2011, Oxus retained the international law firm Amsterdam & Peroff LLP to protect the interests of Oxus and its shareholders against the wrongful conduct of the Uzbek government, and to pursue the legal remedies available to Oxus. Oxus' subsequent attempts to discuss and resolve the issues with the Uzbek government proved unproductive. Consequently, on 31 August 2011, Oxus served a Notice of Arbitration on Uzbekistan under the Agreement for the Promotion and Protection of investments dated 24 November 1993 between the United Kingdom and the Republic of Uzbekistan (the Investment Treaty). Among other things, the Investment Treaty requires the Uzbek government to treat Oxus fairly and equitably as an investor, to refrain from discriminating against Oxus, and to provide Oxus with full protection and security. Oxus asserts in the arbitration that the conduct of the Uzbek government constitutes a systematic violation of the Investment Treaty, and that Oxus is entitled, in addition to other relief, to full compensation for its injuries in an amount estimated to be no less than \$400 million. This amount includes a claim in respect of the Khandiza base metals project, which the Uzbek Government took from Marakand Minerals in 2006 without offering any compensation at the time.

The filing of the Notice of Arbitration represents significant progress toward obtaining redress for Oxus and its shareholders, and comes as a result of considerable effort by Oxus personnel and its international legal counsel. I am confident in the strength of Oxus' claims, and pleased with the progress of the arbitration. Nevertheless, we remain, as always, open to a resolution of the dispute on fair and equitable terms.

I would like to take this opportunity to express my thanks to all shareholders and Oxus staff for their loyalty shown to the company during what has been a most stressful year.



Richard Shead
Executive Chairman

11 November 2011

For the year ended 31 December 2010 the Group has accounted for its joint venture, Amantaytau Goldfields ("AGF"), using equity accounting, rather than proportionate consolidation, which was used for the year ended 31 December 2009. In the board's view, the equity accounting method provides a reliable and more relevant presentation of the Group's results and its operating activity for the year ended 31 December 2010. Therefore, the Group decided to make a voluntary change in the accounting policy and the new accounting policy was applied retrospectively. Comparatives for the year ended 31 December 2009 and the eighteen month period ended 31 December 2008 have been restated to reflect this change in accounting policy, as required by revised IAS 1.

The decision to revert back to equity accounting is based on the fact that the Group is currently in dispute with the Government of Uzbekistan as to the future of AGF, and is seeking appropriate compensation for its 50% share in AGF via a negotiated settlement or international arbitration. The Company has commenced international arbitration proceedings against the Uzbek Government and has included the loss of the Khandiza base metals project in 2006 within the proceedings. Although the outcome of the proceedings is uncertain, compensation sought from the proceedings exceeds the book value of the AGF assets. Accordingly no provision has been made in the financial statements against the carrying value of AGF.

The Group's share of AGF's profit and net assets for the year ended 31 December 2010 is unaudited, given a lack of access to the relevant financial records, and is based on management and other accounting information provided by AGF and reviewed and checked by the Group's accounting personnel prior to the commencement of the dispute (see note 39 to the financial statements).

RESULTS FOR THE YEAR

The Group reports gross revenue of \$nil for the year ended 31 December 2010 (2009: \$nil). Revenue is instead reflected in the consolidated income statement as the Group's 50% share of AGF's profits.

The Group reports a loss for the year ended 31 December 2010 of \$3.70 million (0.93 cents per share loss) against a loss of \$5.84 million (1.52 cents per share loss) for the year ended 31 December 2009.

AGF reports an unaudited operating profit before exceptional items of \$8.46 million for the year ended 31 December 2010 (2009: \$10.96 million) and a profit after exceptional items and tax of \$4.82 million (2009: \$1.02 million). 50% of this profit has been reflected in the Group's results. During the year ended 31 December 2010 AGF produced 5,895 ounces of gold (2009: 4,000 ounces) and 685,568 ounces of silver (2009: 170,299 ounces), and sold 5,117 ounces of gold (2009: 16,073 ounces) and 668,019 ounces of silver (2009: 664,121 ounces), for total revenue of \$19.69 million (2009: \$26.53 million). The general risks of operating in Uzbekistan are disclosed in Note 32 and events subsequent to 31 December 2010 related to the operations in Uzbekistan are discussed in Note 39.

Total Group assets decreased to \$56.79 million (2009: \$65.66 million), including cash and cash equivalents of \$6.67 million (2009: \$8.66 million).

CORPORATE ACTIVITIES

During the year the Company issued 28,357,596 new ordinary shares, of which 3,697,834 represented fees and salaries of directors and senior management capitalised as part of a cash preservation strategy, and 9,034,762 represented capitalised interest on the Company's convertible loan notes. A further 15,625,000 new ordinary shares were issued against conversion of \$3 million of convertible loan notes. Since the year end a further 4,395,647 new ordinary shares have been issued, representing capitalised fees and salaries of directors and senior management. As at 7 September 2011 the total number of shares in issue was 418,816,103.

In January 2010 the Company announced that it had signed a conditional agreement with a consortium of Chinese investors to invest and arrange financing in a total aggregate amount of up to approximately \$185 million (the "Financing"). The funds were to be used to provide working capital to the Company and to finance and develop AGF's operations in Uzbekistan, including the expansion of open pit heap leach mining operations, the development of one or more underground mines, and an accelerated exploration programme. The Company's shareholders approved the terms of the Financing at an EGM held on 26 January 2010. On 31 December 2010 the agreement lapsed following the inability of AGF to renew or obtain certain operating licences from the Uzbek Government and the failure to obtain final regulatory approvals from the Chinese Government.

The Ministry of Finance of the Republic of Uzbekistan is claiming \$10.84 million from the Company in respect of the AGF Phase 2 Project Development Fund (the "Fund") and has obtained a judgment in its favour in the Uzbek courts, which it is seeking to enforce in the English courts. The Company is vigorously defending the claim and considers that the Fund is no longer payable. The circumstances surrounding the creation of the Fund also form part of the Group's claim in arbitration against the Uzbek Government.

In May 2008 the Company issued convertible loan notes in the principal amount of \$18.5 million. In January 2010 the notes were restructured such that they are convertible at 12p per share, earn interest at UK LIBOR + 3% per annum, and are repayable, if not converted, in May 2013. In November 2010 \$3 million in principal amount of notes were converted. If all the remaining notes are converted the maximum number of new ordinary shares that would be issued is 80,729,166.

At 31 December 2010 the Company owed Nedbank \$2.5 million against a \$20 million corporate loan facility. Since the year end this amount has been repaid in full.

The directors continue to undertake appropriate measures in order to preserve cash until such time as the Group's operations are fully funded and the dispute with the Uzbek Government has been resolved. At 21 October 2011, the Group's cash resources stood at approximately \$3.0 million.

The directors present their report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

During the period under review, the principal activities of the Company and its subsidiary and joint venture companies ("the Group") were the continued development of its core operations at the 50% owned Amantaytau Goldfields ("AGF") joint venture in Uzbekistan.

During the year AGF produced 5,895 ounces of gold and 685,568 ounces of silver, and sold 5,117 ounces of gold and 668,019 ounces of silver, for total revenue of \$19.7 million. AGF reported an unaudited profit of \$4.8 million for the year ended 31 December 2010. Despite this, towards the end of the year, the Uzbek shareholders began to lobby for the liquidation of AGF, citing dissatisfaction with its financial performance.

In January 2010 the Company signed a conditional agreement with a consortium of Chinese investors to invest and arrange up to a total of \$185 million in order to expand AGF's operations, including the development of an underground mine for which a bankable feasibility study had been completed. On 31 December 2010 the agreement lapsed following the inability of AGF to renew or obtain certain operating licences from the Uzbek Government and the failure to obtain final regulatory approvals from the Chinese Government.

In January 2011 the Uzbek shareholders agreed in principle to acquire the Group's 50% shareholding in AGF. In February 2011 the Group submitted a detailed offer to the Uzbek shareholders of AGF. To date no reply has been received to the offer and instead AGF has been subjected to an extensive audit of its financial and economic activities by an audit commission appointed by the Uzbek Government. This has resulted in the Group becoming unable to manage the operational affairs of AGF and a declaration of force majeure in March 2011. On 31 August 2011 the Group commenced international arbitration proceedings against the Uzbek Government in order to seek appropriate compensation if a satisfactory settlement cannot otherwise be reached. The Group has also included the loss of the Khandiza base metals project in 2006 within the proceedings.

As a result of the dispute, the Group's share of AGF's profit and net assets for the year ended 31 December 2010 remains unaudited, given the current lack of access to the relevant financial records.

Compensation sought from the proceedings exceeds the book value of the AGF and Khandiza assets. Accordingly no provision has been made in these financial statements against the carrying value of AGF.

Further information on the activities of the Group and a review of business developments are included in the Chairman's Statement and the Financial Review.

The Company's shares are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange, but trading in the shares was suspended on 29 June 2011 at the request of the Company, pending the publication of these audited financial statements for the year ended 31 December 2010 and the unaudited interim financial statements for the 6 month period ended 30 June 2011.

RESULTS AND DIVIDEND

The results for the year are set out in the Consolidated Income Statement on page 9.

The directors are not recommending the payment of a dividend in respect of the year under review (2009: nil).

CHANGE IN ACCOUNTING POLICY

Prior to the year ended 31 December 2010, the Group used proportionate consolidation to account for its interest in the AGF joint venture. Given the current state of affairs at AGF the directors now consider that proportionate consolidation of 50% of AGF's income, expenditure, assets and liabilities is no longer appropriate. In the board's view, the equity accounting method provides a reliable and more relevant presentation of the Group's results and its operating activity than the proportionate consolidation for the year ended 31 December 2010. Therefore, the Group decided to make a voluntary change in the accounting policy and the new accounting policy was applied retrospectively.

Comparatives for the year ended 31 December 2009 and the 18 month period ended 31 December 2008 have accordingly been restated to reflect this change in accounting policy, as required by revised IAS 1.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

Miradil S Djalalov	Non-executive (resigned 3 February 2011)
John C Donald	Chief Operating Officer (retired 31 March 2010)
James R G McBurney	Non-executive (resigned 3 February 2011)
Oliver C Prior	Non-executive
Richard B Shead	Executive Chairman
Richard V L Wilkins	Finance Director (resigned 3 March 2011)

Richard Wilkins continues to serve as company secretary.

On 21 October 2011 the directors' interests in the equity share capital of the Company were:

	Ordinary Shares Number	Options over Ordinary Shares Number
Oliver C Prior	394,649	250,000
Richard B Shead	5,194,519	3,000,000

In accordance with the Company's Articles of Association at least one third of the directors must retire by rotation at each Annual General Meeting, and they may stand for re-appointment at the Meeting. Additionally, a director appointed during the year must stand for re-appointment at the first Annual General Meeting after such appointment. Accordingly the director retiring by rotation is Oliver Prior and, being eligible, offered himself for re-appointment at the Annual General Meeting, which was held on 30 June 2011.

SHARE CAPITAL

Details of the Company's share capital are disclosed in Note 24 to the Financial Statements.

On 21 October 2011 the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

	Number of Shares	Percentage of the Company's Issued Share Capital
RAB Special Situations (Master) Fund Limited	106,885,574	25.52%
Zeromax GmbH	57,897,085	13.82%
Flamborough Properties Limited	21,617,556	5.16%

CORPORATE GOVERNANCE

During the financial year to 31 December 2010 directors sought, as far as is considered appropriate having regard to the size and nature of activities of the Company, to comply with the Combined Code on Corporate Governance applicable to listed companies. The board is assisted in this regard by an Audit and Independence Committee and a Remuneration and Nominations Committee, both of which are represented by Oliver Prior, the only non-executive director. Mr Prior liaises as appropriate with the Chairman of the Company and with the external auditors.

REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee comprises Oliver Prior and James McBurney (resigned in February 2011). Oliver Prior acts as Chairman. The Committee reviews the performance of the executive directors and sets the scale and structure of their remuneration and the basis of their service agreements. In determining remuneration, the Committee seeks to enable the Company to attract and retain executives of the highest calibre. The Committee also makes recommendations to the board concerning allocation of share options to employees. The Committee is also responsible for nominating candidates, for the approval of the board, to fill either executive or non-executive vacancies or additional appointments to the board.

Details of the directors' remuneration are shown in Note 8 to the Financial Statements.

EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The Group also operates an employee share option scheme.

The Group is committed to providing equal opportunity for individuals in all aspects of employment. The Group gives every consideration to applications for employment by disabled persons where the requirements of the job may be adequately filled by a disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

CHARITABLE AND POLITICAL DONATIONS

The Company has created and has been sponsoring the Amantaytau Goldfields / Oxus Gold Scholarship Foundation. This sponsorship ceased from 30 June 2011 due to the current state of affairs at AGF.

The Company has also provided financial assistance from time to time to the Uzbek British Trade and Industry Council, a government body whose purpose is to further business ties between Uzbekistan and Great Britain, and the British Uzbek Society, a non-profit making organisation which serves to strengthen cultural and social ties between the two countries.

DIRECTORS' INDEMNITY

The Company has indemnified the directors and other officers of the Company against qualifying liabilities in accordance with the provisions of the Companies Act 2006.

PAYMENTS TO CREDITORS

The Group's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction, either by accepting the suppliers' terms or by making the suppliers aware of alternative terms, and to abide by the agreed terms. Trade creditors of the Group at 31 December 2010 represented 28 days of annual purchases (2009: 30 days).

FINANCIAL RISK MANAGEMENT AND CAPITAL STRUCTURE

Details of the Group's policies towards financial risk management and its capital structure are disclosed in Note 32 to the Financial Statements. The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Financial and Operating Review. The Group's principal risks are summarised in the Going Concern section below and further details given in the Financial and Operating Review.

GOING CONCERN

The Group's activities are dependent on its ability to generate or raise the appropriate finance to support such activities, and on the issuance and maintenance of appropriate mining and operating licences and permits.

The Group has declared force majeure with regard to AGF and is seeking appropriate compensation through international arbitration. The Group has also included the loss of the Khandiza base metals project in 2006 within the proceedings. Compensation sought from the proceedings exceeds the book value of the AGF and Khandiza assets. However, the recoverability of the carrying value of the assets remains dependant on the outcome of the proceedings, which is uncertain. Please refer to the Post Balance Sheet Events note 39 for more detail on the international arbitration.

The Ministry of Finance of the Republic of Uzbekistan is claiming \$10.84 million from the Company in respect of the AGF Phase 2 Project Development Fund (the "Fund") and has obtained a judgment in its favour in the Uzbek courts, which it is seeking to enforce in the English courts. The Company is vigorously defending the claim and considers that the Fund is no longer payable. The circumstances surrounding the creation of the Fund also form part of the Group's claim in arbitration against the Uzbek Government.

In May 2008 the Company issued convertible loan notes in the principal amount of \$18.5 million. These notes were convertible into ordinary shares of the Company at 37p per share, earned interest at 8% per annum and were repayable, if not converted, in May 2010. The notes have now been restructured such that they are convertible at 12p per share, earn interest at US LIBOR + 3% per annum, and the repayment date has been extended to May 2013. \$3.0 million of the notes were converted into ordinary shares of the Company at 12p per share in November 2010. The Company has assumed these notes will not be redeemed in the 12 months from the date of these financial statements (see note 27 to the financial statements).

At 31 December 2010, the Company owed Nedbank \$2.5 million against a \$20 million corporate loan facility. Since the year end this amount has been repaid in full.

The directors continue to undertake appropriate measures in order to preserve cash until such time as the Group's operations are fully funded and the dispute with the Uzbek Government has been resolved. At 21 October 2011, the Group's cash resources stood at approximately \$3.0 million.

The future of the Group and its principal activities remain materially uncertain depending on the outcome of the dispute with the Uzbek Government. Therefore a material uncertainty exists which may cast significant doubt on the Company and the Group's ability to continue as a going concern and, therefore, maybe unable to realise its assets and discharge its liabilities in the normal course of the business. Once the outcome is known, it is currently the intention of the directors to consult the Company's shareholders as to the future direction of the Group's activities. Nevertheless after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

AUDITOR

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.



Richard Wilkins
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have, as required by the AIM Rules for Companies (the "AIM rules"), prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and have also elected to prepare the Company financial statements in accordance with those standards. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Richard Shead
Executive Chairman

11 November 2011

We were engaged to audit the financial statements of Oxus Gold plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Shareholders' Equity and the related notes 1 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Basis for disclaimer of opinion on financial statements

The audit evidence available to us was limited due to restrictions placed on the scope of our work as a result of the ongoing legal dispute between the Uzbekistan Government and Oxus Gold Plc.

As a result we did not have access to the financial records and management of Amantaytau Goldfields ("AGF"), the joint venture through which the group has conducted its operations in Uzbekistan, and have been unable to obtain sufficient appropriate audit evidence in the group financial statements concerning:

- the carrying value of the group's mining properties of \$2 million;
- the existence of the group's drill rig held in the possession of AGF, which has a carrying value of \$2.2 million;
- the carrying value of the \$45.5 million investment in the AGF joint venture as at 31 December 2010; and
- the share of profit from the AGF joint venture for the year ended 31 December 2010 of \$2.4 million.

In addition, as shown in note 20 to the financial statements, the company's investment in the AGF joint venture has been shown net of a liability previously imposed against the group, and upheld in the Uzbekistan courts in the year, in respect of the AGF Phase II development fund. The carrying value of this liability at 31 December 2010 was \$10.9 million. The Uzbekistan Government has brought this case before the United Kingdom (UK) courts to enforce the ruling obtained in Uzbekistan. The directors are unable to provide evidence as to whether the group has been formally released from this liability and are currently challenging this claim in the UK courts as well as in the international arbitration detailed in note 39.

We have been unable to obtain sufficient appropriate audit evidence as to whether the company has been released from liability and accordingly whether the accounting treatment adopted by the company as outlined above is in accordance with IFRS.

Disclaimer of opinion on financial statements

Because of the significance of the matters described in the Basis for Disclaimer of Opinion on Financial Statements paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the financial statements.

Emphases of matter – going concern and recoverability of assets

Notwithstanding our disclaimer of opinion on the financial statements, we draw your attention to the disclosures made in notes 1, 19 and 39 to the financial statements in relation to going concern, the company's ability to recover the drill rig claim and the group and company's ability to recover asset values depending on the outcome of the international arbitration described below.

During early 2011 the group ceased operations in Uzbekistan and, in March 2011, declared force majeure in respect of its management obligations towards the AGF joint venture in that country. The company subsequently entered into international arbitration with the Uzbekistan Government on 31 August 2011 asserting that the Uzbekistan Government has violated the terms of the 1993 Agreement for the Promotion and Protection of Investments between the United Kingdom and the Republic of Uzbekistan and the case is ongoing. At present the directors of the company believe it is not possible to estimate reliably the outcome of the arbitration and the extent to which certain assets related to its investment in Uzbekistan may be recoverable. As disclosed in note 39, the arbitration requests that damages be awarded in favour of the Group in an amount to be proven and quantified in the proceedings and currently estimated as no less than US\$400 million. Depending on the outcome of the arbitration the group and company may not be able to recover fully the carrying value of mining properties of \$2 million, and the \$45.5 million investment in the AGF joint venture as at 31 December 2010 (which is net of the \$10.9 million liability related to the AGF development fund which may become due and payable). In addition, the parent company may not be able to recover fully its investments of \$75.7 million and loans of \$7.9 million.

In July 2011, the group submitted a claim to its insurers regarding the drill rig, with a carrying value of \$2.2 million at 31 December 2010, held in the possession of AGF. Depending on the outcome of the claim, the group may not be able to recover fully the value of the drill rig.

The group's and the company's ability to continue as a going concern is dependent upon a favourable outcome of the international arbitration without which they may not be able to settle their liabilities as they fall due during the 12 months from the date of approval of these financial statements. These conditions, along with other matters explained in notes 1, 19 and 39 and to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

Notwithstanding our disclaimer of an opinion on the financial statements, in our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Arising from the limitation of our review on AGF referred to above:

- we were unable to determine whether adequate accounting records have been kept;
- we have not obtained all the information and explanations that we require for our audit; and
- adequate returns for our audit have not been received from the AGF joint venture, which has not been visited by us.

Other than as disclosed above, we have nothing further to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made..

Deborah Thomas (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London

11 November 2011

OXUS GOLD PLC

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	Year ended 31 December 2010 US\$000	Year ended 31 December 2009 US\$000 (restated ^(*))
Administrative expenses		(4,411)	(6,026)
Other operating expenses			
Exploration and evaluation costs		(493)	(528)
Exceptional items:			
Gain on sale of investments	9	1,074	138
Penalty interest on joint venture dividends receivable	10	474	1,531
Costs of aborted CITIC financing	11	(367)	-
Legal costs and settlement of claims	12	(1,107)	(538)
Total net operating expenses		(4,830)	(5,423)
Share of profit from joint venture	13	2,410	509
Operating loss	6	(2,420)	(4,914)
Financial income	14	624	992
Financial expense	15	(1,901)	(1,922)
Loss before tax		(3,697)	(5,844)
Taxation	16	-	-
Loss for the year		(3,697)	(5,844)
Basic loss per share (US cents)	17	(0.93)	(1.52)
Diluted loss per share (US cents)	17	(0.93)	(1.52)

Consolidated statement of comprehensive income

	Year ended 31 December 2010 US\$000	Year ended 31 December 2009 US\$000
Loss for the year	(3,697)	(5,844)
Gain on revaluation of available for sales securities	-	195
	(3,697)	(5,649)

All amounts related to continued operations.

^(*) comparative information for the year ended 31 December 2009 was restated (Note 3).

OXUS GOLD PLC

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2010

	Notes	As at 31 December 2010 US\$000	As at 31 December 2009 (restated ^(*)) US\$000	As at 31 December 2008 (restated ^(*)) US\$000
Non-current assets				
Mining properties	18	2,004	687	687
Property, plant and equipment	19	2,244	188	328
Investments in and loans to joint venture	20	45,451	55,136	62,045
Available for sale investments		-	-	895
Total non-current assets		46,699	56,011	63,955
Current assets				
Trade and other receivables	22	395	349	1,819
Available-for-sale investments		-	643	-
Cash and cash equivalents	23	6,699	8,657	9,873
Total current assets		7,094	9,649	11,692
Total assets		56,793	65,660	75,647
Current liabilities				
Loans and borrowings	26	16,615	20,320	6,407
AGF Phase 2 Project Development Fund	29	-	9,866	10,866
Trade and other payables	30	1,523	1,367	2,246
Finance lease liability	28	608	-	-
Total current liabilities		18,746	31,553	19,519
Non-current liabilities				
Loans and borrowings	26	-	-	17,834
Finance lease liability	28	1,087	-	-
Total non-current liabilities		1,087	-	17,834
Total net assets		36,960	34,107	38,294
Equity				
Share capital	24	6,916	6,497	6,425
Share premium		117,614	113,517	113,040
Capital reserve		25,708	23,479	22,566
Merger reserve		34,929	34,929	34,929
Other comprehensive income		-	195	-
Retained deficit		(148,207)	(144,510)	(138,666)
Total equity		36,960	34,107	38,294

(*) comparative information as at 31 December 2009 and 2008 was restated (Note 3).

These financial statements were approved by the Board of Oxus Gold plc, registered in England and Wales No. 4056219, on 11 November 2011 and signed on their behalf by:



Richard Shead
Executive Chairman

OXUS GOLD PLC

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2010

	Notes	As at 31 December 2010 US\$000	As at 31 December 2009 US\$000
Non-current assets			
Property, plant and equipment	19	23	33
Investment in subsidiaries	21	75,726	75,726
Loans due from joint venture	22	7,886	10,098
Total non-current assets		83,635	85,857
Current assets			
Trade and other receivables	22	350	1,973
Cash and cash equivalents	23	3,046	3,179
		3,396	5,152
Total assets		87,031	91,009
Current liabilities			
Interest-bearing loans and borrowings	26	16,615	20,320
AGF Phase 2 Project Development Fund	29	-	9,866
Amounts due to Group undertakings	31	49,693	39,957
Trade and other payables	30	499	1,645
Total current liabilities		66,807	71,788
Total net assets		20,224	19,221
Equity			
Share capital	24	6,916	6,497
Share premium		117,614	113,517
Capital reserve		4,275	2,046
Retained deficit		(108,581)	(102,839)
Total equity		20,224	19,221

These financial statements were approved by the Board of Oxus Gold plc, registered in England and Wales No. 4056219, on 11 November 2011 and signed on their behalf by:



Richard Shead
Executive Chairman

OXUS GOLD PLC

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	Year ended 31 December 2010 US\$000	Year ended 31 December 2009 US\$000
Cash flows from operating activities			
Loss before tax for the year		(3,697)	(5,844)
Adjustments for:			
Share of profit from joint venture		(2,410)	(509)
Depreciation and amortisation	19	167	205
Finance costs		1,901	2,482
Equity-settled share-based payment expenses	25	146	913
Gain on sale of investments	9	(1,074)	(138)
Other reserve movements		1,376	549
Cash flows from operating activities before changes in working capital and provisions		(3,591)	(2,342)
(Increase) / decrease in amounts due from joint venture		12,095	7,418
(Increase) / decrease in accounts receivable		(46)	1,470
Increase / (decrease) in trade and other payables		(9,710)	(226)
Interest paid		(383)	(653)
Net cash generated by (used in) operating activities		(1,635)	5,667
Cash flows from investing activities			
Purchase of property, plant and equipment		(528)	(65)
Purchase of mining properties		(1,317)	-
Sale of available-for-sale investments	9	1,522	585
Net cash (used in) / from investing activities		(323)	520
Cash flows from financing activities			
Repayment of borrowings		-	(7,403)
Net cash from financing activities		-	(7,403)
Net decrease in cash and cash equivalents		(1,958)	(1,216)
Cash and cash equivalents at beginning of year		8,657	9,873
Cash and cash equivalents at end of year	23	6,699	8,657

OXUS GOLD PLC

**COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	Year ended 31 December 2010 US\$000	Year ended 31 December 2009 US\$000
Cash flows from operating activities			
Loss before tax for the year		(5,742)	(6,684)
Adjustments for:			
Finance costs		1,901	1,764
Equity-settled share-based payment expenses	25	146	913
Depreciation	19	10	35
Other reserve movements		993	546
Cash flow from operating activities before changes in working capital		(2,692)	(3,426)
Decrease in amounts due from joint venture		2,212	4,000
Decrease in trade and other debtors		1,623	385
Decrease in amounts due to subsidiary undertakings		-	(340)
Increase in trade and other payables		(893)	(257)
Interest paid		(383)	(653)
Net cash used in operating activities		(133)	(291)
Cash flows from investing activities			
Investment in plant and equipment		-	(65)
Investment in joint venture		-	-
Net cash used in investing activities		-	(65)
Cash flows from financing activities			
Repayment of borrowings		-	(4,750)
Net cash raised from by (used in) financing activities		-	(4,750)
Net decrease in cash and cash equivalents		(133)	(5,106)
Cash and cash equivalents at the beginning of year		3,179	8,285
Cash and cash equivalents at the end of year	23	3,046	3,179

OXUS GOLD PLC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Capital	Share premium	Capital reserve	Merger reserve	Other comprehensive income	Retained deficit	Total shareholders' equity
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Balance at 31 December 2008	6,425	113,040	22,566	34,929	-	(138,666)	38,294
Total comprehensive loss for the period	-	-	-	-	-	(5,844)	(5,844)
Shares issued in the year	72	477	-	-	-	-	549
Equity-settled share-based payments	-	-	913	-	-	-	913
Gain on available for sale securities	-	-	-	-	195	-	195
Balance at 31 December 2009	6,497	113,517	23,479	34,929	195	(144,510)	34,107
Total recognised in income and expense for the period	-	-	-	-	-	(3,697)	(3,697)
Shares issued in the year	419	2,260	-	-	-	-	2,679
Gain on conversion of convertible loan	-	1,837	-	-	-	-	1,837
Equity-settled share-based payments	-	-	146	-	-	-	146
Capital portion of convertible loan	-	-	2,083	-	-	-	2,083
Disposal of available for sale securities	-	-	-	-	(195)	-	(195)
Balance at 31 December 2010	6,916	117,614	25,708	34,929	-	(148,207)	36,960

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.

Capital reserve represents the credit to equity in respect of share-based payments adjusted for foreign exchange movements together with reserves arising from the acquisition of minority interests, the capital proportion of convertible loans and historic adjustments arising from corporate reconstructions prior to the adoption of international accounting standards. The capital reserve has been restated to recognise in equity the value of returned warrants.

The merger reserve comprises gains arising from a Group corporate reconstruction in 2001.

Retained deficit represents the cumulative loss of the Group attributable to equity shareholders.

OXUS GOLD PLC

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Capital US\$000	Share premium US\$000	Capital reserve US\$000	Retained deficit US\$000	Total shareholders' equity US\$000
Balance at 31 December 2008	6,425	113,040	1,133	(96,155)	24,443
Total recognised in income and expense for the period	-	-	-	(6,684)	(6,684)
Shares issued in the year	72	477	-	-	549
Equity-settled share-based payments	-	-	913	-	913
Balance at 31 December 2009	6,497	113,517	2,046	(102,839)	19,221
Total recognised in income and expense for the period	-	-	-	(5,742)	(5,742)
Shares issued in the year	419	2,260	-	-	2,679
Gain on conversion of convertible loan	-	1,837	-	-	1,837
Equity-settled share-based payments	-	-	146	-	146
Capital portion of convertible loan	-	-	2,083	-	2,083
Balance at 31 December 2010	6,916	117,614	4,275	(108,581)	20,224

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.

Capital reserve represents the credit to equity in respect of share-based payments adjusted for foreign exchange movements together with reserves arising from the acquisition of minority interests, the capital portion of convertible loans and historic adjustments arising from corporate reconstructions prior to the adoption of international accounting standards. The capital reserve has been restated to recognise in equity the value of returned warrants.

Retained deficit represents the cumulative loss of the Group attributable to equity shareholders.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

1 General information

Oxus Gold plc (the "Company") is a company incorporated in England and Wales under the Companies Act 2006 and throughout the year ended 31 December 2010 was listed on the London AIM stock exchange. The address of the registered office is 52 Charles Street, London, W1J 5EU. The nature of the Group's operations and its principal activities are set out in the Directors' Report and Financial Review.

These financial statements are presented in US Dollars which is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

Going concern

The Group's activities are dependent on its ability to generate or raise the appropriate finance to support such activities, and on the issuance and maintenance of appropriate mining and operating licences and permits.

The Group has declared force majeure with regard to AGF and is seeking appropriate compensation through international arbitration. The Group has also included the loss of the Khandiza base metals project in 2006 within the proceedings. Compensation sought from the proceedings exceeds the book value of the AGF and Khandiza assets. However, the recoverability of the carrying value of the assets remains dependant on the outcome of the proceedings, which is uncertain. Please refer to the Post Balance Sheet Events note 39 for more detail on the international arbitration.

The Ministry of Finance of the Republic of Uzbekistan is claiming \$10.84 million from the Company in respect of the AGF Phase 2 Project Development Fund (the "Fund") and has obtained a judgment in its favour in the Uzbek courts, which it is seeking to enforce in the English courts. The Company is vigorously defending the claim and considers that the Fund is no longer payable. The circumstances surrounding the creation of the Fund also form part of the Group's claim in arbitration against the Uzbek Government.

In May 2008 the Company issued convertible loan notes in the principal amount of \$18.5 million. These notes were convertible into ordinary shares of the Company at 37p per share, earned interest at 8% per annum and were repayable, if not converted, in May 2010. The notes have now been restructured such that they are convertible at 12p per share, earn interest at US LIBOR + 3% per annum, and the repayment date has been extended to May 2013. \$3.0 million of the notes were converted into ordinary shares of the Company at 12p per share in November 2010. The Company has assumed these notes will not be redeemed in the 12 months from the date of these financial statements (see note 27 to the financial statements).

At 31 December 2010, the Company owed Nedbank \$2.5 million against a \$20 million corporate loan facility. Since the year end this amount has been repaid in full.

The directors continue to undertake appropriate measures in order to preserve cash until such time as the Group's operations are fully funded and the dispute with the Uzbek Government has been resolved. At 21 October 2011, the Group's cash resources stood at approximately \$3.0 million.

The future of the Group and its principal activities remain materially uncertain depending on the outcome of the dispute with the Uzbek Government. Therefore a material uncertainty exists which may cast significant doubt on the Company and the Group's ability to continue as a going concern and, therefore, maybe unable to realise its assets and discharge its liabilities in the normal course of the business. Once the outcome is known, it is currently the intention of the directors to consult the Company's shareholders as to the future direction of the Group's activities. Nevertheless after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

2 Application of new and revised International Financial Reporting Standards (IFRSs)**(a) New and revised IFRSs affecting amounts reported in the current year (and/or prior years)**

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported in these consolidated financial statements. Details of other new and revised IFRSs applied in these consolidated financial statements that have had no material effect on the consolidated financial statements are set out in section (b) below.

Amendments to IAS 1 Presentation of Financial Statements
(as part of *Improvements to IFRSs*
issued in 2009)

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

In line with the revised Standard, the Group has classified the liability component of convertible notes substantially modified in the current year as current based on when cash settlement is required to be made. The amendments have been applied retrospectively.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

IAS 27 (as revised in 2008)
Consolidated and Separate Financial Statements

The application of IAS 27(2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes in accounting policies have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

IFRS 9 *Financial Instruments*

In the current year, the Group has applied IFRS 9 *Financial Instruments* (IFRS 9) (as issued in November 2009 and revised in October 2010) and the related consequential amendments in advance of its effective date. The Group has chosen 31 December 2010 as its date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities) because the Group decided to apply IFRS 9 in the current year and 31 December 2010 is the year end date of the current year. The Group has applied IFRS 9 retrospectively and comparative amounts have been restated, where appropriate.

(b) New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*

The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2 Application of new and revised International Financial Reporting Standards (IFRSs)

Amendments to IFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>	The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 Transfers of Assets from Customers	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from ‘customers’ and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.
Improvements to IFRSs issued in 2009	Except for the amendments to IFRS 5, IAS 1 and IAS 7 described earlier in section 2.1, the application of Improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

(c) New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters ¹
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets ²
IAS 24 (as revised in 2009)	Related Party Disclosures ³
Amendments to IAS 32	Classification of Rights Issues ⁴
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement ³
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ¹
IFRS 10	Consolidated Financial Statements
IFRS 13	Fair Value Measurement

Improvements to IFRSs issued in 2010 (except for the amendments to IFRS 3(2008), IFRS 7, IAS 1 and IAS 28 described earlier in section 2.1)⁵

¹ Effective for annual periods beginning on or after 1 July 2010.

² Effective for annual periods beginning on or after 1 July 2011.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

The amendments to IFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Group’s disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

2 Application of new and revised International Financial Reporting Standards (IFRSs)

IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to IAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors anticipate that the adoption of these IFRSs and Interpretations in future periods will have no material impact on the financial statements of the Group.

3 Significant accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

The Group has taken advantage of the exemption under section 405 of the Companies Act 2006 and consequently the income statement of the parent company is not presented as part of these financial statements. The loss of the parent company for the financial year amounted to \$5.7 million (2009: \$6.7 million).

The following subsidiary undertakings have been consolidated within the financial statements:

Subsidiary	Country of incorporation	Holding	Operations
- Oxus Holdings (Malta) Limited	Malta	100%	Holding company
- Marakand Minerals Limited	Guernsey	100%	Khandiza project
The following companies are subsidiary undertakings of Oxus Holdings (Malta) Limited:			
- Oxus Resources Corporation Ltd	Malta	100%	Holding company
- Oxus Mining Supplies Limited	Isle of Man	100%	Procurement of goods and services
The following companies are a subsidiary or joint venture undertakings of Oxus Resources Corporation Ltd:			
- Oxus Services Limited	England	100%	Managerial and technical services
- Amantaytau Goldfields AO	Uzbekistan	50%	Mining operations

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (together the "Group") made up to 31 December each period. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity. Minority interests consist of the amount of those interests at the date of the original business combination and the minority interest's share of changes in equity since the date of the combination.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra group transactions, balances, income and expenses are eliminated on consolidation.

(c) Change in accounting policy

Prior to the year ended 31 December 2010, the Group used proportionate consolidation to account for its interest in the AGF joint venture. Given the current state of affairs at AGF the directors now consider that proportionate consolidation of 50% of AGF's income, expenditure, assets and liabilities is no longer appropriate. In the board's view, the equity accounting method provides a reliable and more relevant presentation of the Group's results and its operating activity for the year ended 31 December 2010. Therefore, the Group decided to make a voluntary change in the accounting policy and the new accounting policy was applied retrospectively.

Comparatives for the year ended 31 December 2009 and the 18 month period ended 31 December 2008 have accordingly been restated to reflect this change in accounting policy, as required by revised IAS 1.

As set out below, the change in accounting policy had no effect on net assets or profit recognised by the Group prior to and in the 2009 financial statements.

Extract from the income statement	2009 (as previously reported)	Effect of change in accounting policy	2009 (as restated)
Gross profit	8,611	(8,611)	-
Total operating expenses	(12,715)	7,292	(5,423)
Share of profit from joint venture	-	509	509
Operating loss	(4,104)	(810)	(4,914)
Finance expenses, net	(1,420)	490	(930)
Loss before tax	(5,524)	(320)	(5,844)
Taxation	(320)	320	-
Loss for the year	(5,844)	-	(5,844)
	2009 (as previously reported)	Effect of change in accounting policy	2009 (as restated)
Extract from the balance sheet			
Total non-current assets	48,925	7,086	56,011
Total current assets	23,536	(13,887)	9,649
Total assets	72,461	(6,801)	65,660
Current liabilities	(37,710)	6,157	(31,553)
Non-current liabilities	(644)	644	-
Net assets	34,107	-	34,107

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(d) Joint venture entities**

During the period, the Group held interest in a joint venture entity. A joint venture entity is an entity in which the Group holds a long term interest and shares joint control over the strategic, financial and operating decisions with one or more other ventures under a contractual arrangement.

Jointly controlled entities are included in the financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. Adjustments are made to the financial statements of joint ventures where necessary to comply with IFRSs.

Profits and losses arising on transactions between the Group and jointly controlled entities are recognised only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the joint venture arising on the transaction.

The Group assesses at each balance sheet date whether there is objective evidence that its investment in jointly controlled entities is impaired. The processes adopted for the impairment review are set out in accounting policy (p) below.

(e) Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. The acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Where the fair value of consideration paid exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired the resulting difference is classified as goodwill and presented as a non-current intangible asset. Where the fair value of consideration paid is lower than the fair value of identifiable assets, liabilities and contingent liabilities acquired the difference is classified as 'negative goodwill' and recognised in income statement. Goodwill arising from business combinations is assessed for impairment (policy 'p' below).

The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Where the value of a business combination increases as a result of the purchase of all or part of a minority interest in an existing subsidiary or of an investment in an associated company which as a result of the increase in investment by the Group becomes classified as a subsidiary in the year of the increase, the purchase method as set out above is applied proportionately to the increase in investment as set out above. The relevant proportion of the results of the acquired operations is included in the consolidated income statement from the date of the relevant acquisition.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(f) Foreign currencies**

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in US Dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to minority interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sale of goods

Revenue represents the net invoice value of goods and is measured at the fair value of consideration received or receivable, after deducting discounts, volume rebates, value added tax and other sales taxes.

A sale is recognised when the significant risks and rewards of ownership have passed, and when revenue can be measured reliably. This is generally when title and any insurance risk have passed to the customer, and the goods have been delivered to a contractually agreed location.

Dividend and interest revenue

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(h) Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Operating profit

Operating profit or loss is stated before charging restructuring costs and after the share of results of associates but before investment income and finance costs.

(k) Finance income

Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognised in the income statement as it accrues, using the effective interest rate method.

(l) Finance costs

Financing costs comprise interest payable on borrowings calculated using the effective interest rate method, the accumulation of interest on provisions and foreign exchange losses.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(m) Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(n) Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size and incidence to enable a full understanding of the financial performance. Transactions which may give rise to exceptional items are principally gains and losses on the sale of investments, impairment charges relating to major mining properties and investments in subsidiary undertakings, restructuring costs and the results and costs relating to litigation.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(o) Mining properties***Mineral rights acquired and exploration and evaluation expenditure capitalised*

Mineral rights and exploration and evaluation costs arise from expenditure incurred prior to development activities and include the cost of acquiring and maintaining the rights to explore, investigate, examine and evaluate an area for mineralisation.

Exploration and evaluation expenditure in the relevant area of interest comprises costs which are directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Exploration and evaluation expenditure also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalised costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operational activities in the relevant area of interest, and where the existence of a commercially viable mineral deposit has been established.

No amortisation charge is recognised in respect of these intangible assets. Mineral rights and exploration and evaluation expenditure are capitalised within intangible assets until such time that the activities have reached a stage which permits a reasonable assessment of the existence of commercially exploitable reserves. Once this has occurred, the respective costs previously held as intangible assets are transferred to mine development costs in property, plant and equipment.

Where the projects have not yet been granted a licence or are determined not to be commercially viable, the related costs are written off to income statement.

Capitalised exploration and evaluation expenditure is assessed for impairment in accordance with the indicators set out in IFRS 6 Exploration for and Evaluation of Mineral Reserves. In circumstances where a property is abandoned, the cumulative costs relating to the property are written off.

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition.

(p) Property, plant and equipment

On initial recognition, land, property, plant and equipment are valued at cost, being the purchase price and the directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by the Group.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use and transferred to the appropriate category of property, plant and equipment.

Depreciation is charged to income and is provided so as to write off the cost, less estimated residual values, of property, plant and equipment as follows:

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(p) Property, plant and equipment (continued)**

Mining assets, except for certain mining equipment and buildings, where economic benefits from the asset are not consumed in a pattern which is linked to the production level, are depreciated using a units of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves. In applying the units of production method, depreciation is normally calculated using the quantity of material processed at the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proven and probable reserves.

Depreciation on all other assets is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Mining machinery and equipment	5 - 20 years
Office furniture	5 years
Computer equipment	5 years

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishment and improvement expenditure, where the benefit is expected to be long lasting, is capitalised as part of the appropriate asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

(q) Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(r) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(t) Financial instruments**

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available for sale financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(t) Financial instruments (continued)***Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(t) Financial instruments (continued)***Compound instruments*

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3 Significant accounting policies (continued)**(v) Pensions**

The Group does not enter into any pension scheme arrangements. The Group does make payments in lieu of pensions for certain individuals; these costs are expensed as incurred.

(w) Employee bonus

Employee costs include bonus payments made to certain directors and employees based upon predetermined performance targets set by the Group. Any such bonus payments directly attributable to the exploration and mining development properties or the mining properties are capitalised against the carrying values of such assets until commercial production commences where such costs are amortised on the same basis as the exploration and mining development properties. All other bonus payments are expensed in the income statement as incurred.

(x) Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payment.

The Company awards share options to certain Company directors and Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option valuation model for options granted before 19 May 2008 and a Black-Scholes model for options granted on or after this date, both models taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest only where vesting is dependent upon the satisfaction of service and non-market vesting conditions or where the vesting periods themselves are amended by the introduction of new schemes and the absorption of earlier schemes by agreement between the Company and the relevant employees.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Where options granted are cancelled all future charges arising in respect of the grant are charged to the income statement on the date of cancellation.

4 Accounting estimates and judgments

Many of the amounts included in the financial statements involve the use of judgment and/or estimation. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience but actual results may differ from the amounts included in the financial statements. Information about such judgments and estimation is contained in the accounting policies and/or the notes to the financial statements and the key areas are summarised below.

Capitalised mining costs and mining resources

The recovery of the value of the Group's exploration and development mining properties together with the value of similar properties held within the Group's joint-venture is reviewed in the light of future production estimates, the price of gold, achievable operating and capital costs and ongoing geological studies. Over the longer term the actual mineable resources achieved may vary significantly from the current estimates. The Group periodically updates estimates of reserves, resources and ore-grades in respect of its exploration and mining development properties and of its recognised value of its joint-venture operation and assesses those for indicators of impairment relating to its capitalised costs.

Base of mining operations

The Group's primary base of mining operations is in the Republic of Uzbekistan. The laws relating to commercial operations, taxation and future dividend payments are still under development and there may be unforeseen changes to the operating and fiscal environment. The financial statements have been prepared on the assumption that no significant adverse changes to the economic, regulatory and fiscal environment will arise. These risks are also discussed in note 32.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

4 Accounting estimates and judgments (continued)*Mineral resources*

There are a number of uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Group's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimates is a function of the quantity and quality of available data and of the assumptions made and judgments used in technical and geological interpretation. There can be no assurance that mineral resources can be upgraded to proven and probable reserves and subsequently mined and recovered.

Mining Licences

The issue of mining licences in Uzbekistan has been under review for a number of years. In 2006 all previously issued mining licenses in Uzbekistan were withdrawn and a letter issued by Gosgortekhnadzor (State Industries and Mine Inspectorate) on 26 December 2006 granting AGF the right to mine for an unlimited period of time was issued in its place, and similarly to all other existing mining companies in Uzbekistan. The resolution of a meeting of the Cabinet of Ministers on 2 March 2009 requested Gosgortekhnadzor to prepare all the relevant documents for the issuance of new mining licences to AGF. The financial statements have been prepared on the assumption that the relevant licences will be issued.

Carrying values of property, plant and equipment.

The Group monitors internal and external indicators of impairment relating to its property, plant and equipment. Management has considered whether any indicators of impairment have arisen over certain assets relating to these assets. After assessing these, management has concluded that no impairment has arisen in respect of these assets during the period and subsequently since 31 December 2009. The value of these assets is also subject to the same risks as affect capitalised mining costs and mining resources.

Useful lives of intangible assets, exploration and development mining properties, mining properties and property, plant and equipment

Intangible assets, mining properties and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long lives of certain assets, changes to the estimates used can result in significant variations in the carrying value.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, including property, plant and equipment, mining properties, and investments in joint-ventures to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, the projected value of gold and silver and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

In determining the fair value certain estimates are used including production estimates, sustainability of the relevant project, country risk as reflected in the relevant discount rate, gold prices and the continuity of mining licenses. These estimates may differ to a material extent to the actual conditions experienced in future periods.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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4 Accounting estimates and judgments (continued)*Income taxes and withholding taxes*

The Group, through its AGF joint venture is subject to income tax and withholding tax in Uzbekistan and significant judgment is required in determining the provision for these taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made. These risks are also discussed in more detail in note 32, Uzbekistan taxation contingencies.

Legal proceedings and contractual disputes

In accordance with IFRSs the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Additionally the recoverable value of the Group's investments in exploration and development mining properties and joint ventures may be impacted by the result of these proceedings. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions or impairment in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim, dispute or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim, dispute or assessment.

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS2, the Group makes estimates principally relating to assumptions used in its option-pricing model as set out in note 25.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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5 Segmental analysis Business segments

The Group has 2 reportable segments under IFRS 8:

- Precious Metals segment, comprising gold & silver operations at different stages, from field exploration through to mine development and precious metals production. The Precious Metals segment includes the Group's principal mining, development and exploration activities in Uzbekistan through its interest in AGF.
- The Corporate segment includes the corporate cost centre primarily serving administrative and fund raising functions to support the Precious Metals segment.

The Group only operated in the United Kingdom and Malta in support of its operations in Uzbekistan and all activities are in respect of mining operations.

Segment information

Segment information about the Group's reportable segments is presented below.

Year ended 31 December 2010	Precious metals	Corporate	Consolidated
Net operating expenses and exceptional items	-	(4,830)	(4,830)
<i>Including:</i>			
<i>Depreciation and amortization</i>	-	(167)	(167)
<i>Gain on sale of investments</i>	-	1,074	1,074
<i>Penalty interest on joint venture dividends receivable</i>	-	474	474
<i>Legal costs</i>	-	(1,107)	(1,107)
Net finance expense	-	(1,277)	(1,277)
Share of profit from joint venture	2,410	-	2,410
Taxation	-	-	-
Segment result	2,410	(6,107)	(3,697)
At 31 December 2010			
Segment assets	49,678	7,115	56,793
Segment liabilities	-	(19,833)	(19,833)
Net assets / (liabilities)	49,678	(12,718)	36,960

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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5 Segmental analysis (continued)

Year ended 31 December 2009	<u>Precious metals</u>	<u>Corporate</u>	<u>Consolidated</u>
Net operating expenses and exceptional items	-	(5,423)	(5,423)
<i>Including:</i>			
<i>Depreciation and amortization</i>	-	(205)	(205)
<i>Gain on sale of investments</i>	-	138	138
<i>Penalty on dividends</i>	-	1,531	1,531
<i>Legal costs</i>	-	(538)	(538)
Net finance income/(expense)	-	(930)	(930)
Share of profit from joint venture	509	-	509
Taxation	-	-	-
Segment result	<u>509</u>	<u>(6,353)</u>	<u>(5,844)</u>
At 31 December 2009			
Segment assets	55,823	9,837	65,660
Segment liabilities	-	(31,553)	(31,553)
Net assets / (liabilities)	<u>55,823</u>	<u>(21,716)</u>	<u>34,107</u>

As at 31 December 2008 segment assets and liabilities were as follows:

At 31 December 2008			
Segment assets	62,045	13,602	75,647
Segment liabilities	-	(37,353)	(37,353)
Net assets / (liabilities)	<u>62,045</u>	<u>(23,751)</u>	<u>38,294</u>

6 Operating loss

Operating loss for the year has been arrived at after charging / (crediting):

	Note	Year ended 31 December 2010 US\$000	Year ended 31 December 2009 US\$000
Staff costs (excluding share-based compensation)	7	2,187	2,136
Depreciation and amortisation	19	167	205
Share based payments ⁽¹⁾	25	142	896
Professional fees		704	700
Rent		374	668
Foreign exchange losses		65	42
Office supplies		92	62
Communication expenses		69	70
Auditors remuneration			
- fees payable to the company's auditors for the audit of the company's annual accounts		155	224
- fees overrun payable to the company's auditors for the audit of the company's 2009 annual accounts		274	-
- fees payable to the company's auditors for other services to the Group		30	-

⁽¹⁾ The amount in respect of share-based payments is non-cash and relates solely to equity settled arrangements.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

7 Staff costs

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Staff other than directors and key management personnel		
Wages and salaries (including benefits)	793	775
Social security costs	73	69
Share-based compensation	49	356
	915	1,200
Directors and key management personnel		
Wages and salaries (including bonus and benefits)	1,296	1,247
Social security costs	25	45
Share-based compensation	93	540
	1,414	1,832
Total staff costs	2,329	3,032
Average number of employees	22	24

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group, including the head of the representative office in Tashkent, Uzbekistan.

8 Directors' remuneration

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Wages and salaries (including bonus and benefits)	1,187	1,196
Social security	25	44
Share-based payment expense	93	540
	1,305	1,780
The emoluments of the chairman were:	449	336
The emoluments of the highest paid director were:	449	336

Details of share options and interests in the Company's shares of each director are shown in the directors' report on page 5.

Name	Salary	Other Benefits	Total
	2010	2010	2010
	\$000	\$000	\$000
Richard Shead	376	73	449
John Donald	127	70	197
Richard Wilkins	294	60	354
Oliver Prior	64	-	64
Miradil Djalalov	59	-	59
James McBurney	64	-	64
	984	203	1,187

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8 Directors' remuneration (continued)

Name	Salary	Other	Total
	2009 \$000	benefits 2009 \$000	2009 \$000
Richard Shead	336	-	336
John Donald	314	4	318
Richard Wilkins	332	4	336
Oliver Prior	61	-	61
Miradil Djalalov	59	-	59
James McBurney	57	-	57
Jonathan Kipps	29	-	29
	1,188	8	1,196

From 1 October 2008 all the directors elected to receive approximately 20% of their salaries in shares of the Company, rather than cash.

Other benefits represent payments in lieu of pension contributions, private medical insurance and life assurance. The Company offers no other benefits in kind.

9 Gain on sale of investments

In April 2010 the Group sold the balance of its investment in Tethys Petroleum Limited for gross proceeds of \$1,522,000 and a gain on sale of \$1,074,000. Gains which arose from changes in fair value of \$195,000 accumulated in the investments revaluation reserve were recycled to income statement.

10 Penalty interest on joint venture dividends receivable

In June 2006 the AGF shareholders resolved to pay dividends based on the operating results of AGF for 2005. As at 31 December 2010, AGF had not paid the dividends to certain shareholders, including Oxus Resources Corporation. Therefore, in accordance with a resolution approved by the AGF shareholders in April 2010, a penalty for late payment of dividends has been accrued as payable by AGF. For the year ended 31 December 2010 an amount of \$474,000 (2009: \$1,531,000) has been accrued by the Group as penalty interest receivable and recognised as an exceptional item.

11 Costs of aborted CITIC financing

In January 2010 the Company announced that it had signed a conditional agreement with a consortium of Chinese investors to invest and arrange financing in a total aggregate amount of up to approximately \$185 million (the "Financing"). The funds were to be used to provide working capital to the Company and to finance and develop AGF's operations in Uzbekistan, including the expansion of open pit heap leach mining operations, the development of one or more underground mines, and an accelerated exploration programme. The Company's shareholders approved the terms of the Financing at an EGM held on 26 January 2010. As discussed in the directors report and in note 39, on 31 December 2010 the agreement lapsed.

Costs totalling \$367,000 in relation to the Financing have been recognised as an exceptional cost in the year ended 31 December 2010.

12 Legal costs and settlement of claims

A former director, William Trew, sued the Company for £175,000 plus interest alleged to be outstanding under the terms of a settlement agreement governing his resignation in December 2007. In addition, MAED Limited, a Company in which Mr. Trew has a material beneficial interest, brought a claim against the Company for an amount of \$374,000 plus interest, alleging that it was entitled to an early completion bonus under a contract relating to the construction of a plant at AGF during 2003 and 2004. The Company was vigorously defending these claims but in March 2010 reached an amicable arrangement with Mr. Trew and MAED Limited to settle. As a result there is no further dispute between the parties.

The costs associated with the litigation comprised \$1,107,000 (2009: \$538,000) and are disclosed separately as an exceptional cost in the year ended 31 December 2010.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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13 Share of profit from joint venture

The Group's joint venture operations are conducted through Amantaytau Goldfields AO ("AGF"). The information disclosed below has been extracted from the latest unaudited financial statements of AGF prepared in accordance with IFRS as of and for the year ended 31 December 2010 and audited financial statements of AGF prepared in accordance with IFRS for the year ended 31 December 2009. See note 20 and the Financial and Operating Review on page 3 for further information.

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Revenue	19,694	26,529
Operating profit before exceptional items and finance costs	8,456	11,001
Exceptional items	(2,498)	(8,362)
Finance costs	(630)	(982)
Operating profit	5,328	1,657
Taxation	(508)	(639)
Net profit for the year	4,820	1,018

Revenue comprises proceeds that AGF received for the sale of gold and precious metals, 50% of which is attributable to the Group. All known taxation liabilities for the year have been included above (also see note 32 for a discussion of the tax risks).

14 Financial income

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Interest receivable from Joint Venture	620	962
Interest receivable – other	4	30
	624	992

15 Financial expense

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Interest on bank overdrafts and loans	134	200
Interest on convertible loan notes	1,514	1,722
Interest on obligations under finance lease	141	-
Loss on amendment of terms of convertible loan notes	112	-
	1,901	1,922

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16 Taxation

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Current tax	-	-
Deferred tax	-	-
Total tax charge	-	-

The charge for the year can be reconciled to the loss per the income statement as follows:

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Loss before tax	(3,697)	(5,844)
Tax at the UK corporation tax rate of 28%	(1,035)	(1,636)
Effect of:		
Expenses not deductible for tax purposes	762	935
Income not charged to tax	(490)	(275)
Taxable income not included in profit and loss account	702	-
Utilisation of losses brought forward	(368)	-
Losses carried forward	1,104	1,559
Tax effect of share of results of joint venture	(675)	(592)
Other	-	9
Tax expense for the period	-	-

The Group has losses available for offset against future income of approximately \$27.2 million (2009: \$24.6 million).

17 Earnings per share

The calculation of the basic loss per share is based on the following data:

	Year ended 31 December 2010 US\$	Year ended 31 December 2009 US\$
Loss for the year attributable to equity shareholders	(3,697,000)	(5,844,000)
Weighted average number of ordinary shares	397,779,702	382,800,886
Basic and diluted earnings / (loss) per ordinary share (US cents)	(0.93)	(1.52)

Share options and convertible loan notes which could potentially dilute basic earnings per ordinary share were not included in the calculation of diluted earnings per share because they were anti-dilutive for the years ended 31 December 2010 and 2009.

The change in the Group's accounting policy during the year is described in detail in note 3 (c). The change in accounting policy had no impact on the reported net loss for the years ended 31 December 2010 and 2009.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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18 Mining properties

	Amantaytau project (Uzbekistan) US\$'000	Khandiza Project (Uzbekistan) US\$'000	Total US\$'000
COST			
At 1 July 2007	687	28,456	29,143
Additions	-	-	-
At 31 December 2008	687	28,456	29,143
Additions	-	-	-
At 31 December 2009	687	28,456	29,143
Additions	1,317	-	1,317
At 31 December 2010	2,004	28,456	30,460
IMPAIRMENT			
At 1 July 2007	-	-	-
Impairment during the year	-	(28,456)	(28,456)
At 31 December 2008	-	(28,456)	(28,456)
Impairment during the year	-	-	-
At 31 December 2009	-	(28,456)	(28,456)
Impairment during the year	-	-	-
At 31 December 2010	-	(28,456)	(28,456)
NET BOOK VALUE			
At 1 January 2009	687	-	687
At 31 December 2009	687	-	687
At 31 December 2010	2,004	-	2,004

The Group tests intangible and tangible assets for impairment annually, or more frequently, if there are indications that assets might be impaired (see note 39).

The Group has made a full provision against the carrying value of its investment in the Khandiza project during the year ended 31 December 2008 as, at that time, it was uncertain whether the Group will be invited to participate in the future development of this asset or will commence international arbitration proceedings with regards to it.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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19 Property, plant and equipment**a. Group**

	Mining equipment US\$'000	Office furniture & equipment US\$'000	Total US\$'000
COST			
At 1 July 2007	849	165	1,014
Additions	-	3	3
Disposals	-	(14)	(14)
At 31 December 2008	<u>849</u>	<u>154</u>	<u>1,003</u>
Additions	-	65	65
Disposals	-	-	-
At 31 December 2009	<u>849</u>	<u>219</u>	<u>1,068</u>
Additions	2,314	-	2,314
Disposals	-	-	-
At 31 December 2010	<u>3,163</u>	<u>219</u>	<u>3,382</u>
DEPRECIATION			
At 1 July 2007	269	137	406
Charge for the year	255	28	283
Disposals	-	(14)	(14)
At 31 December 2008	<u>524</u>	<u>151</u>	<u>675</u>
Charge for the year	170	35	205
Disposals	-	-	-
At 31 December 2009	<u>694</u>	<u>186</u>	<u>880</u>
Charge for the year	248	10	258
Disposals	-	-	-
At 31 December 2010	<u>942</u>	<u>196</u>	<u>1,138</u>
NET BOOK VALUE			
At 1 January 2009	325	3	328
At 31 December 2009	<u>155</u>	<u>33</u>	<u>188</u>
At 31 December 2010	<u>2,221</u>	<u>23</u>	<u>2,244</u>

Depreciation in the amount of \$91,000 attributable to drilling equipment has been capitalised as part of Amantaytau project (Uzbekistan) and forms part of mining properties.

Included in the net book value is a drill rig carried at \$2.20 million. In April 2010 AGF entered into an operating agreement with Oxus Resources Corporation ("ORC") whereby AGF leased a drilling rig from ORC.

As a condition of this agreement AGF arranged insurance against Physical Loss of, or Damage to, the drill rig and its spares for a policy period of 12 months commencing 2 August 2010 with a sum insured of \$2.37 million and ORC was a named co-insured.

On 10 May 2011 ORC wrote to AGF terminating the agreement in accordance with its provisions. AGF have not responded to this letter nor have they returned the drill rig as requested.

Having had no response, on 26 July 2011, ORC, as a named co-insured, filed a claim for Physical Loss of the rig seeking \$2.37 million from the insurer, Uzbekinvest National Export-Import Insurance Company, and this is being vigorously pursued by EOS Risq, the Insurance Broker that arranged the policy.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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19 Property, plant and equipment (continued)**b. Company**

	Office furniture and equipment US\$'000
COST	
At 1 January 2009	154
Additions	65
At 31 December 2009	219
Additions	-
At 31 December 2010	219
DEPRECIATION	
At 1 January 2009	151
Charge for the year	35
At 31 December 2009	186
Charge for the year	10
At 31 December 2010	196
NET BOOK VALUE	
At 1 January 2009	3
At 31 December 2009	33
At 31 December 2010	23

20 Investment in joint venture

	Country of incorporation	Type of shares	% held 2010	% held 2009	Accounting reference date
Amantaytau Goldfields AO	Uzbekistan	Ordinary	50%	50%	31 December
			Investment US\$'000	Loans and receivables US\$'000	Total US\$'000
COST					
At 1 July 2007			20,000	34,759	54,759
Group's share of losses			(2,272)	-	(2,272)
Adjustment to carrying value of investment			(8,548)	-	(8,548)
Expenditure transferred from exploration and mining properties			10,866	-	10,866
Amounts advanced			-	7,240	7,240
At 31 December 2008			20,046	41,999	62,045
Group's share of profits			509	-	509
Amounts advanced			-	6,401	6,401
Amounts repaid			-	(13,819)	(13,819)
At 31 December 2009			20,555	34,581	55,136
Group's share of profits			2,410	-	2,410
Capitalisation of penalty			1,068	-	1,068
Extinguishment of liability related to AGF Phase II Development fund			(10,934)	-	(10,934)
Amounts advanced			-	3,571	3,571
Amounts repaid			-	(5,800)	(5,800)
At 31 December 2010			13,099	32,352	45,451

The interest in the joint venture is the Group's 50% attributable interest in AGF.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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20 Investment in joint venture (continued)

The value of the Group's investment in AGF has been subject to an impairment review by determining recoverable amount using 'fair value less costs to sell' calculations. The key assumption adopted in the impairment review is the successful completion of the arbitration proceedings with regards to the Group's 50% interest in AGF as discussed in the Director's Report.

Further information in respect of AGF:

	2010 Group US\$'000	2009 Group US\$'000
Property, plant and equipment	30,656	33,898
Exploration and mining development properties	13,781	11,676
Total non-current assets	44,437	45,574
Trade and other receivables	1,415	4,232
Inventory	13,286	8,492
Cash and cash equivalents	292	1,945
Total current assets	14,993	14,669
Total assets	59,430	60,243
Non-current liabilities	(34,556)	(38,340)
Current liabilities	(6,636)	(8,553)
Total liabilities	(41,192)	(46,893)
Net assets	18,238	13,350
Group's share of joint venture's net assets	9,119	6,675
Group's share of joint venture profit for the year (note 13)	2,410	509

At 31 December 2010 AGF has a liability to the Group in respect of unpaid dividends of \$3.0 million (2009: \$3.0 million). This dividend is included in the Group's investment in AGF. As discussed in Note 10, penalty interest receivable for late payment of the dividend has been accrued by the Group for the year ended 31 December 2010 in the amount of \$474,000 (2009: \$1,531,000 million).

The general risks of operating in Uzbekistan are disclosed in Note 32 and 39.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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21 Investment in subsidiaries

Subsidiary undertakings of the Company are set out in Note 3. The Company's investments into its subsidiaries comprised US\$ 75,726,000 as of 31 December 2010 and 2009.

The Company tests investments in subsidiaries annually for impairment, or more frequently if there are indications that investments might be impaired (see Note 39).

22 Trade and other receivables**a. Group**

	2010	2009	2008
	US\$000	US\$000	US\$000
Current			
Prepayments for goods and services	362	321	282
Other debtors	33	28	181
Amounts due from related party	-	-	1,356
	395	349	1,819

b. Company

	2010	2009
	US\$000	US\$000
Non-current		
Amounts due from joint venture	7,886	10,098
	7,886	10,098
Current		
Amounts due from joint venture	-	1,645
Prepayments	347	317
Other debtors	3	11
	350	1,973

The trade and other receivable balances are categorised as loans and receivables. At the balance sheet date none of the trade and other receivable balances is past due but not impaired.

OXUS GOLD PLC

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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23 Cash and cash equivalents

a. Group

	2010 US\$000	2009 US\$000	2008 US\$000
Cash at bank	3,985	5,943	1,873
Bank deposits	2,714	2,714	8,000
	6,699	8,657	9,873

b. Company

	2010 US\$000	2009 US\$000
Cash at bank	332	466
Bank deposits	2,714	2,713
	3,046	3,179

Cash at bank and bank deposits comprise only cash.

24 Share capital

a. Authorised share capital

	Group and Company 2010 Number	Group and Company 2009 Number	Group and Company 2010 US\$000	Group and Company 2009 US\$000
Ordinary shares of £0.01	600,000,000	600,000,000	8,687	8,687

b. Issued and fully paid share capital

	Group and Company 2010 Number	Group and Company 2009 Number	Group and Company 2010 US\$000	Group and Company 2009 US\$000
At beginning of the year	386,062,860	381,439,685	6,497	6,425
Conversion of directors and senior management remuneration to shares	3,697,834	4,623,175	72	72
Conversion of interest on loan notes to shares	9,034,762	-	82	-
Conversion of loan notes to shares	15,625,000	-	265	-
At 31 December	414,420,456	386,062,860	6,916	6,497

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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24 Share capital (continued)**Capital structure**

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital and details of employee share schemes are shown above. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association, the Combined Code, the Companies Acts and related legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

The convertible loan notes issued by the Company could result in a maximum number of new ordinary shares being issued of 80,729,166, see also Note 26. Share options outstanding at 31 December 2010 could result in the issue of a maximum of 15,760,000 ordinary shares, see also Note 25. These shares, if issued, will rank pari passu with existing ordinary shares.

25 Share options**a. Share options granted under the Company's employee share option plan**

At 31 December 2010, executives and senior employees held options over 15,760,000 ordinary shares of the Company (31 December 2009: 16,296,000), which will expire as set out below.

	Group and Company 2010 Number	Expiry date	Group and Company 2009 Number	Expiry date
Current executives and senior employees	12,700,000	12 July 2014	11,725,000	12 July 2014
Resigned executives and senior employees	1,650,000	18 May 2013	1,650,000	18 May 2013
Resigned executives and senior employees	-	n/a	1,511,000	6 October 2010
Resigned executives and senior employees	660,000	8 February 2014	660,000	8 February 2014
Resigned executives and senior employees	250,000	8 February 2011	250,000	8 February 2011
Resigned executives and senior employees	200,000	22 August 2012	200,000	22 August 2012
Resigned executives and senior employees	200,000	24 September 2013	200,000	24 September 2013
Resigned executives and senior employees	100,000	15 October 2011	100,000	15 October 2011
At 31 December	15,760,000	n/a	16,296,000	n/a

Share options granted under the Company's employee share option plan carry no rights to dividends and no voting rights. During the year ended 31 December 2010, no share options have been exercised (2009: nil) and share options of 1,511,000 have lapsed (2009: nil).

b. Fair value of share based payments

The Black Scholes Model has been used to determine the fair-value of the share-based payments in the period. The inputs into the Black Scholes are as follows:

2010	Option Price (GBP)	Average grant date share price (GBP)	Average expected volatility (% pa)	Average risk- free interest rate (% pa)	Average dividend yield (% pa)	Average implied option life (years)	Average fair value per option (GBP)	Amount expensed
	£0.1500	£0.11	70%	3.5%	0%	1.9	£0.029	7
	£0.1650	£0.11	70%	3.5%	0%	1.9	£0.029	3
	£0.0600	£0.07	70%	1.0%	0%	1.8	£0.015	132
Total charge for the period								142
Foreign exchange movement								4
Credit to capital reserve								146

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25 Share options (continued)

2009	Option Price (GBP)	Average grant date share price (GBP)	Average expected volatility (% pa)	Average risk-free interest rate (% pa)	Average dividend yield (% pa)	Average implied option life (years)	Average fair value per option (GBP)	Amount expensed in 2008
	£0.1500	£0.11	70%	3.5%	0%	1.9	£0.029	7
	£0.1650	£0.11	70%	3.5%	0%	1.9	£0.029	5
	£0.2500	£0.25	90%	5.0%	5%	1.2	£0.083	124
	£0.0600	£0.07	70%	1.0%	0%	1.8	£0.017	425
Adjustment for changes in assumptions in respect of vesting conditions, cancellations								335
Total charge for the year								896
Foreign exchange movement								17
Credit to capital reserve								913

26 Interest-bearing loans and borrowings

a. Group

	2010 US\$000	2009 US\$000	2008 US\$000
Borrowing at amortised cost			
Convertible loan notes (note 27)	14,115	17,820	17,667
Nedbank corporate loan facility	2,500	2,500	6,250
Obligations under finance lease (note 28)	1,695	-	324
Total borrowings	18,310	20,320	24,241
Amount due for settlement within 12 months	17,223	20,320	6,407
Amount due for settlement after 12 months	1,087	-	17,834
	18,310	20,320	24,241

b. Company

	2010 US\$000	2009 US\$000
Borrowing at amortised cost		
Convertible loan notes (note 27)	14,115	17,820
Nedbank corporate loan facility	2,500	2,500
Total borrowings	16,615	20,320
Amount due for settlement within 12 months	16,615	20,320
Amount due for settlement after 12 months	-	-
	16,615	20,320

Nedbank corporate loan facility

As at 31 December 2010, \$2.5 million remained outstanding against a \$20 million corporate loan facility with Nedbank Limited. The loan earned interest at 2.75% above 3 month US LIBOR. The loan has been repaid in full since the year-end.

The fair-value of the income-earning financial assets and the interest-bearing financial liabilities is not materially different from the values attributed to these items in the financial statements.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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27 Convertible loan notes

On 14 May 2008 the Company completed a placement of 8.0% unsecured convertible loan notes in units of \$250,000 each at par, due May 2010 (the "Notes"), for gross proceeds of \$18.5 million. The Notes were convertible into a maximum of 26,315,789 new ordinary shares of the Company at a price of £0.37 per share. On 26 January 2010, the Company completed a restructuring of the Notes such that they are now convertible at £0.12 per share, earn interest at UK LIBOR plus 3% per annum, and the repayment date has been extended to May 2013. The Notes' conversion documentation is unclear as to whether the noteholders are entitled to convert back to the original terms in the event that a minimum of \$80 million of project financing was not obtained by 31 December 2010. Although the financing was not obtained the original terms have now expired and the noteholders have continued to accept the amended terms. The CLNs are disclosed as a current liability.

As a result of the restructuring, the new terms of the Notes were deemed substantially different and were accounted for as an extinguishment of the original liability and recognition of a new liability. A loss of \$112,000 originating on the modification of the terms of the Notes was recognised in the income statement as part of financial costs.

Conversion of the Notes may occur at any time between January 2010 and May 2013. If the Notes have not been converted, they will be redeemed in May 2013.

In November 2010, \$3.0 million of the Notes were converted into 15,625,000 new ordinary shares of the Company at £0.12 per share.

If all the Notes outstanding at 31 December 2010 are converted, a total of 80,729,166 new ordinary shares in the Company would be issued.

The convertible notes contain two components: liability and equity elements. The equity element is presented in equity under the heading of "Capital Reserve". The effective interest rate of the liability element on initial recognition subsequent to substantial modification in January 2010 is 9.8% per annum.

	2010	2009	2008
	US\$000	US\$000	US\$000
Proceeds generated on initial placement in May 2008	18,500	18,500	18,500
Notes issue costs	-	(818)	(818)
Equity component	<u>(3,187)</u>	<u>(566)</u>	<u>(566)</u>
Liability component at the date of issue (2010: restructuring)	15,313	17,116	17,116
Interest charged	1,514	1,722	940
Interest paid	(108)	(1,018)	(389)
Conversion into ordinary shares (principal and interest accrued as payable)	(767)	-	-
Gain recognised on conversion into ordinary shares	<u>(1,837)</u>	<u>-</u>	<u>-</u>
Liability component at 31 December (note 26)	14,115	17,820	17,667

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

28 Obligations under finance lease

In April 2010, the Group entered into a credit agreement with Atlas Copco Craelius AB under the terms of which the Group leased certain of its exploration equipment under finance lease. The lease term is 3 years. The ownership title for the leased assets will be transferred to the Group at the end of the lease term for no charge. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. Interest rates underlying all obligations under the finance lease were fixed at the contract date at 8.7% per annum.

	Minimum lease payments US\$'000	Present value of minimum lease payments US\$'000
Not later than one year	860	608
Later than one year and not later than two years	797	668
Later than two years	436	419
	2,093	1,695
Less: future finance charges	(398)	-
Present value of minimum lease payments	1,695	1,695
Included in the consolidated financial statements as:		
- current borrowings (note 26)		608
- non-current borrowings (note 26)		1,087
		1,695

29 AGF Phase 2 project development fund

	Group and Company 2010 US\$'000	Group and Company 2009 US\$'000	Group and Company 2008 US\$'000
AGF Phase 2 Project Development Fund	-	9,866	10,866

Since 2004 the Company has accrued the AGF Phase 2 Project Development Fund in respect of an amount to be paid to the Uzbek Government. Given the current dispute with the Uzbek Government the Phase 2 Project Development Fund has now been reclassified as a contingent liability the enforcement and recognition of which is subject to the outcome of the litigation in the UK and the arbitration against the Uzbek Government (see note 39).

OXUS GOLD PLC

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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30 Trade and other payables

a. Group

	2010 US\$000	2009 US\$000	2009 US\$000
Trade creditors	1,221	800	1,041
Other creditors	166	384	27
Accruals	136	183	1,178
	1,522	1,367	2,246

b. Company

	2010 US\$000	2009 US\$000
Trade creditors	204	480
Other creditors	166	-
Accruals	129	1,165
	499	1,645

The Directors consider that there is no material difference between the fair values and book values of Trade and other payables.

31 Amounts due to group undertakings

	2010 US\$000	2009 US\$000
Loan notes issued to Oxus Resource Corporation	36,267	36,267
Amounts payable to Oxus Resource Corporation	10,934	-
Other Group liabilities	2,492	3,690
	49,693	39,957

The loan notes were issued to Oxus Resources Corporation on 22 June 2007. The notes are unsecured and carry a coupon based upon 6 months US\$ LIBOR. The loan notes are redeemable in whole or in part on or after 22 June 2008 at the Company's option or upon receiving one month's notice of redemption from the loan note holder. It is not the intention of the either the Company or Oxus Resources Corporation to redeem all or part of the loan notes in the foreseeable future.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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32 Risk and sensitivity analysis

The Group and Company ("The Group") are exposed through its operations to a number of financial risks. The policy for managing these risks is set by the board and all such risks are managed at a Group level within the organisation. The policies for these risks are described further below:

Foreign currency risk

Foreign exchange risk arises due to the primary revenues of the Group's joint venture being in US dollars whilst the principal operating costs incurred by its joint venture operation in Uzbekistan are denominated in the Uzbek local currency which is the principal functional currency of this operation.

The Group has a general policy of not hedging against foreign currency risks. Over the longer-term permanent changes in foreign exchange rates could have an impact on consolidated earnings.

The primary currency for the sale of gold and silver on the world markets is the US dollar. This is also the functional and presentational currency of both the Group and the Company.

At balance sheet date, the Group held GBP 0.90 million (2009: GBP 0.59 million) in its cash at bank balance. A movement of 5% strengthening or weakening of the USD to GBP would respectively decrease or increase the Group's profit before tax by USD 0.07 million (2009: USD 0.05 million) based on the Group's current GBP cash balance.

The Group has not used any exchange rate derivatives in this or the prior period.

Liquidity risk

Liquidity risk is monitored by the Group to ensure that the Group has sufficient resources to meet its financial obligations as they fall due.

The liquidity risk of the Group is managed centrally. New borrowings are taken on where additional funds are required. Surplus funds not allocated to future investment and working capital requirements are used to repay existing loans and borrowings or are held on deposit. The Group intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing. Where appropriate the board will seek additional funds from the issue of share capital, convertible loan notes and warrants.

The board monitors its liquidity requirements through monthly management accounts, periodic cash flow forecasts and weekly statements of liquidity. Further details in respect of the Group's and Company's principal exposure in respect of investments, loans and trade and other receivables is set out in Notes 20 and 22.

Market operational risks

The Group operated primarily in Uzbekistan. The nature of the Group's investments requires the commitment of significant funding through its investment in joint-venture operations and exploration and evaluation expenditure in Uzbekistan. It is the nature of mining operations that each project is long-term. It may be many years before the exploration and mining development properties held either directly by the Group or through investment in joint venture operations are proven to be viable and for progress to reach commercial production. To control these risks the board arranges for the provision of technical support, directly or through appointed agents, to these mining development operations and also commissions technical research and feasibility studies both prior to entering into these commitments and subsequently in the life of these projects.

There also exists a risk that the market perception of the relevant market risk discount rate used in the assessment of asset values in Uzbekistan might increase.

Market price risk

As an 'unhedged gold producer', the Group is exposed to market price risk through its investments. The Group manages this risk centrally with reference to annual budgets and periodic forecasts including sensitivity analyses of projected production rates and gold market prices. This risk will continue to be closely monitored by the board in future periods.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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32 Risk and sensitivity analysis (continued)*Credit risk*

The Group's joint venture (AGF) sells to only one customer, Standard Bank London Limited. It is the board's policy to ensure that each joint venture operation assesses the credit risk of all new customers before entering into contracts and also, where possible, to trade only with established entities. Standard Bank pays AGF against delivery of precious metals.

The Group is exposed to credit risk in respect of management and administrative fees for services and interest on loans charged to AGF as well as credit risks arising from the outstanding indebtedness of AGF to the Group.

Fair value and cash flow interest rate risk

The Group utilises or intends to utilise fixed and variable rate loans. The board intends to repay all variable rate borrowings within one year. The Group's principal fixed rate borrowing are the convertible loan notes issued in the period. The board sets a policy for each material borrowing dependent upon the prevailing market conditions and the terms available in respect of each particular financial instrument and the interest rates attaching thereto. The board seeks to achieve an appropriate balance of exposure to these risks. An analysis of the effect of interest rate movements in respect of the Group and Company borrowings is set out in the table below.

Interest rate table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's loss before tax through the impact on floating rate borrowings which comprise only the Nedbank loan facility. There is no impact on the Group's equity.

	Change in rate	Effect US\$000
Nedbank loan facility	+ 0.5%	12
	+ 1.0%	25
	+ 1.5%	37
Nedbank loan facility	- 0.5%	(12)
	- 1.0%	(25)
	- 1.5%	(37)

Uzbekistan taxation risks

i) Inherent uncertainties in interpreting tax legislation.

The Group, through its joint venture operations, is subject to uncertainties relating to the determination of its tax liabilities.

The tax system and tax legislation in Uzbekistan has been in force for only a relatively short time and is subject to frequent changes and varying interpretations. Management's interpretations of such legislation in applying it to business transactions of the Group may be challenged by the relevant tax authorities and, as a result, the Group may be assessed on additional tax payments including fines, penalties and interest charges, which could have a material adverse effect on the Group's financial position and results of operations.

ii) Possible additional tax liabilities

The directors believe that the Group's operations in Uzbekistan are in substantial compliance with tax legislation and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant Government authorities may take a differing position with regard to the interpretation of contractual provisions or tax legislation. The resulting effect of this matter is that significant additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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32 Risk and sensitivity analysis (continued)*Insurance*

AGF has the following principal insurance policies in place:

- All Risks Physical Loss or Damage on plant and equipment including loss consequent upon such damage;
- All Risks on gold, silver and other precious metals in whatever form whilst in transit or storage in Uzbekistan and during shipment to the final purchaser overseas;
- Public and Employers' Liability in respect of operations in Uzbekistan and ex-patriate and local employees.

From 2008 AGF changed from insuring these risks with policies directly into the London market, to insuring them with a major Uzbek insurance company, which in turn has a direct re-insurance of the AGF policies with the London market in order to comply with new Uzbek insurance laws.

In addition AGF arranges certain statutory insurance, such as Motor Liability, Workmen's Compensation etc. with local Uzbek insurers.

Environmental contingencies

Environmental regulations in Uzbekistan are continually evolving. The outcome of the environmental regulations under proposed or future environmental legislation cannot be estimated at present. As obligations are determined, they will be provided for in accordance with the Group's accounting policies. The directors believe that there are no significant liabilities under current legislation not accrued for in the Group's consolidated financial statements.

33 Operating leases

Operating leases relate to leases of office properties with lease terms of between 1 and 5 years. The Group does not have an option to purchase the leased properties at the expiry of the lease periods. Non-cancellable operating lease liabilities, which are not discounted, are as follows:

a. Group

	2010	2009
	US\$000	US\$000
Less than one year	296	302
Between one to two years	236	242
Between three and five years	531	726
Over five years	-	60
	1,063	1,330

b. Company

	2010	2009
	US\$000	US\$000
Less than one year	236	242
Between one to two years	236	242
Between three and five years	531	726
Over five years	-	60
	1,003	1,270

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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34 Capital commitments

The Group and the Company had no capital commitments outstanding at 31 December 2010.

AGF had no committed and contracted capital commitments as at 31 December 2010 (2009: nil).

35 Guarantees made on behalf of the AGF joint venture

On 4 July 2005 the Company guaranteed \$643,000 to Atlas Copco Customer Finance AB for hire purchase payments on two drill rigs acquired by AGF over a five year period which expired in November 2010. There is no difference between cost and current fair value.

36 Contingent asset

In May 2007 the Group disposed of its interests in Kyrgyzstan (the Jerooy project), Turkey and Romania to KazakhGold Group Limited. KazakhGold is contracted to pay additional consideration of up to \$80 million conditional upon KazakhGold or a nominee acquiring a license to mine, or acquiring a Company or entity that has the benefit of a license to mine, the Jerooy deposit and commencing development or production at this site.

No amounts have been recognised in these financial statements for this contingent asset. There have been no changes to this position known to the Company.

37 Related party transactions

The Group has a related party relationship with its subsidiaries and joint venture. Transactions between the Group entities are eliminated on consolidation and are not included in this note. Transactions with the joint venture and balances outstanding as receivable from the joint venture, which were not eliminated to the extent of the Group's interest in the joint venture, are disclosed in Notes 13, 14 and 20.

As at 31 December 2010, two shareholders of the Company had interests in the Company's convertible loan notes totalling \$12,000,000 (2009: \$12,000,000).

38 Non-cash transactions

During the current year, the Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

- the Group acquired US\$1.9 million of equipment under a finance lease (2009: nil);
- conversion of US\$ 3 million of convertible loan notes (2009: nil);
- loss of \$112,000 recognised on modification of terms of convertible loan notes (2009: nil);
- issuance of 870,473 ordinary shares in lieu of the accrued interest attributable to the converted notes (2009: nil).

39 Post-balance sheet events*Operations in Uzbekistan*

As discussed in the Directors' Report, in January 2011 the Uzbek shareholders agreed in principle to acquire the Group's 50% shareholding in AGF. In February 2011 the Group submitted a detailed offer to the Uzbek shareholders of AGF. To date no reply has been received to the offer and instead AGF has been subjected to an extensive audit of its financial and economic activities by an audit commission appointed by the Uzbek Government. This has resulted in the Group becoming unable to manage the operational affairs of AGF and a declaration of force majeure in March 2011. Since February 2011 the Group has been unable to gain access to AGF accounting records which has meant that the Group has been unable to provide assurance that the numbers disclosed in these accounts relating to AGF are accurate and complete.

Subsequent attempts to discuss and resolve the issue with the Uzbek Government have proved unproductive and on 31 August 2011 the Company commenced international arbitration proceedings against the Uzbek Government under the Agreement for the Promotion and Protection of Investments dated 24 November 1993 between the United Kingdom and the Republic of Uzbekistan (Agreement).

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
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39 Post-balance sheet events (continued)*Operations in Uzbekistan (continued)*

Among other things, the arbitration asserts that the Uzbek Government treated the Company and its subsidiaries, Oxus Resources Corporation Limited and Marakand Minerals Limited (collectively the Group), unfairly and inequitably, discriminated against the Group, and failed to provide the Group with full protection and security, all in violation of the Uzbek Government's obligations towards foreign investors under the Agreement. The arbitration requests that damages be awarded in favour of the Group in an amount to be proven and quantified in the proceedings and currently estimated as no less than US\$400 million. Although the outcome of the proceedings is uncertain and the recoverability of mining and joint venture assets may be affected, upon such outcome it is currently the intention of the directors to consult the Company's shareholders as to the future direction of the Group's activities.

Whilst the dispute with the Uzbek Government is ongoing, and in order to reduce corporate costs further, certain directors and officers have further reduced or waived salary in return for a percentage of any settlement received. This has been approved by the Company's remuneration committee.

In July 2011 the Company was served with a claim commenced by the Ministry of Finance of Uzbekistan in the English High Courts to enforce an Uzbek judgement that the Ministry of Finance obtained against the Company for the payment of US\$10.84 million in respect of the AGF Phase 2 Project Development Fund. The Company is vigorously defending the claim and considers that the Fund is no longer payable. The circumstances surrounding the creation of the Fund also form part of the Group's claim in arbitration against the Uzbek Government. The fund was classified as a contingent liability as of 31 December 2010. No amounts have been recognised in these financial statements for this contingent liability.

Insurance Claim on drill rig

As detailed in Note 19, the company has submitted a claim to its insurers regarding the drill rig.

Repayment of Nedbank loan

In January 2011 the Company repaid \$2.5 million, being the outstanding balance on the Nedbank \$20.0 million corporate loan facility.

Suspension of trading on AIM

The Company experienced difficulties in finalising its results for the year ended 31 December 2010. These difficulties have arisen as a result of the inability to access the relevant information relating to the Group's 50% owned AGF joint venture.

As the Company was unable to publish its annual report and accounts for the year ended 31 December 2010 within six months of its financial year end, as required under the AIM Rules for Companies, trading in the ordinary shares of the Company would have been automatically suspended with effect from 1 July 2011. To enable the Board to address questions from shareholders which were likely to arise at the Annual General Meeting of the Company held on 30 June 2011, the Company requested that trading in the ordinary shares of Oxus be suspended with effect from 3.00 p.m. on 29 June 2011.

Subject to the release of this annual report and accounts together with the unaudited interim results for the six month period ended 30 June 2011, trading in the ordinary shares of Oxus will resume under the AIM Rules for Companies with immediate effect.

