



OXUS
GOLD

Interim Report 2006

HIGHLIGHTS

- Net loss on ordinary activities of \$4.214 million compared to a net profit of \$4.293 million for the same period for 2005.
- AGF reports \$2.440 million loss for the period and \$8.855 million profit for the year ended 31 December 2006.
- AGF operations materially disrupted by a State “complex” tax, customs and compliance audit, but normal operations now being restored.
- Uzbek courts reject \$224 million out of a total \$225 million in tax and customs claims arising from the State audit.
- AGF Vysokovoltnoye project has to date produced 2,814 kgs of doré containing 74,351 ounces of silver and 2,552 ounces of gold. Refining contract signed and first silver sales expected in April 2007.
- AGF Vysokovoltnoye plant stockpile of 62.78 tonnes of concentrate containing 617,508 ounces of silver and 7,864 ounces of gold.
- Production commenced at AGF’s Asaukak oxide deposit.
- AGF’s exploration activities focus on finding new oxide resources and extensive exploration programme planned for 2007.
- Encouraging results from further metallurgical testwork at AGF’s underground sulphide project.
- Agreement in principle to sell Kyrgyz, Romanian and Turkish interests for minimum consideration of 3.54 million KazakhGold shares, currently valued at approximately \$81 million with potential additional consideration of up to \$80 million in cash, conditional on KazakhGold obtaining a licence to develop the Jerooy gold project.
- Zeromax, Uzbekistan’s largest private sector company, purchases a 6.94% strategic stake in the Company.

REPORT ON ACTIVITIES

FINANCIAL RESULTS

The Group reported an unaudited loss on ordinary activities of \$4.214 million for the six months ended 31 December 2006 (2005: \$4.293 million profit) and a loss of \$4.232 million (2005: \$3.779 million profit) after taxation and minority interests.

The Group's activities during the period were adversely affected by a State "complex" tax, customs and compliance audit carried out by the Uzbek authorities at the Amantaytau Goldfields (AGF) project in Uzbekistan, which materially disrupted the ongoing operations at AGF. As a result AGF contributed a loss of \$1.220 million (2005: \$4.521 million profit) towards gross revenue, being the Group's 50% share of the loss for the six month period. However, AGF reports a profit of \$8.855 million (2005: \$13.263 million) for the year to 31 December 2006 after tax and debt service.

OPERATIONS

The following table summarises AGF's operating results for the six months to 31 December 2006.

AGF OPERATIONS

	6 months 31/12/06	6 months 30/6/06	6 months 31/12/05	Year 31/12/06	Year 31/12/05
Ore mined, tonnes	454,400	770,900	746,700	1,225,400	1,567,500
Ore processed, tonnes	561,100	814,300	795,400	1,375,500	1,465,500
Average grade (g/t)	2.4	3.4	4.3	3.0	4.5
Average gold recovery (%)	80.6	69.8	76.7	73.4	77.1
Gold produced, ounces	35,235	62,818	84,119	98,053	161,615
Gold sales, ounces	27,499	62,843	91,195	90,342	163,666
Hedge ounces	0	0	76,699	0	140,307
Spot ounces	27,499	62,843	14,496	90,342	23,359
Average gold price per ounce (\$)	608	594	353	598	346
Average cash cost per ounce (\$)	536	329	196	392	202
Average total cost per ounce (\$)	623	366	221	445	230
Net profit (loss) after tax and debt service (\$m)	(2,440)	11,295	9.042m	8,855	13,263

During July and August 2006 AGF underwent a State "complex" tax, customs and compliance audit as part of the established regulatory procedure. All enterprises in Uzbekistan are subject to this procedure every three years. As a result of the audit, the State tax and customs authorities claimed approximately \$225 million in taxes, customs duties, fines and penalties for alleged breaches of the Uzbek tax law. Subsequently the Navoi Regional Economic Court and the Tashkent Supreme Economic Court have rejected \$224 million of these claims. Oxus made provision within its annual accounts to 30 June 2006 to cover its 50% share of the outstanding liability of \$1 million.

The State audit materially disrupted the ongoing operations of AGF due to various restrictions imposed on assets and bank accounts whilst the tax and customs claims were passing through the Uzbek legal process. Although operations were able to continue at a reduced level, AGF was unable to operate at maximum efficiency resulting in accelerated depletion of oxide ore stockpiles and a subsequent reduction in the grade and quality of ore feed to the processing plant and reduced plant running times. In addition the financial disruption led to shortages of diesel, lime and steel balls, and interruptions to the refining process. As a result, at 31 December 2006 approximately 16,000 ounces of gold in refined or doré format had been stockpiled. This gold has been sold during 2007 and as various restrictions have been lifted, normal operations are now being restored. Gold production for the latter half of 2006, however, was still well below target.

REPORT ON ACTIVITIES (CONTINUED)

Production at Vysokovoltnoye was also disrupted although the irrigation of the stacked ore and the operation of the Merrill Crowe plant continued throughout the period. Hence production of concentrate continued. At 31 December 2006 a total of 358,800 tonnes had been stacked, all of which was under irrigation, and to date 2,814 kgs of doré containing 74,351 ounces of silver and 2,552 ounces of gold have been produced. In addition to this the plant has stockpiled 62.78 tonnes of concentrate containing 617,508 ounces of silver and 7,864 ounces of gold. A new smelting furnace will be commissioned during April and a refining contract with the Almalyk Mining and Metallurgical Combinat has now been signed. First silver sales are expected in April and are then scheduled to average five tonnes per month for the remainder of 2007, increasing to eight tonnes per month in 2008 with increased production and improved refinery performance.

During the period AGF also paid approximately \$3.5 million in taxes that it had previously been exempted from by virtue of tax privileges granted to AGF by decrees of the Uzbek Government. AGF's legal advisers maintain that Oxus, as a foreign investor, is protected under Uzbek law from adverse changes to its investment environment until 2010. Discussions are currently under way with the Uzbek Government with a view to mitigating the impact of these additional taxes, and Oxus is hopeful that a positive outcome will be forthcoming.

UNDERGROUND SULPHIDES PROJECT

The underground AGF sulphides project study is currently receiving final comments from the relevant Uzbek State authorities, and the study is expected to be submitted for final approval during May. This report will provide the positive go-ahead for AGF to develop the sulphides project.

The sulphides project is designed to mine the deeper sulphide extensions to the oxide ore bodies currently being mined by open pit methods by AGF at Centralny and also to mine the underground Severny ores. Combined they contain ore reserves of 9.71 million tonnes at an average grade of 7.71 g/t containing 2.41 million ounces of gold, within a mineral resource of 12.4 million tonnes at an average grade of 8.7 g/t and containing 3.5 million ounces of gold at a cut-off grade of 3.5 g/t gold. The total mineral resource is 17.73 million tonnes at an average grade of 6.84 g/t containing 3.9 million ounces of gold at zero cut-off grade. The project is expected to commence production in 2009 and will produce an average of 6.8 tonnes of gold annually.

AGF has also commenced testwork and investigations into the option of creating a superpit from the existing Centralny oxide pits. This transitional and sulphidic ore would be fed to a modification of the existing oxide processing plant. If economically viable, initial capital costs would be greatly reduced and first production from the project would be accelerated. A proposal to carry out the scoping study for this option is currently being compiled.

EXPLORATION

Exploration activities during the period continued to focus on finding new oxide resources and proving up new reserves for AGF. Initial grade control evaluation has been completed for the upper benches of the Asaukak deposit. Pre-stripping is now completed and ore production started in the first quarter of 2007.

Pit designs have been prepared for the Uzunbulak deposit, and are currently being submitted to the relevant Uzbek authorities for approval prior to finalising production schedules and revising the operational reserve estimate.

Work has progressed on new deposit models for the Northern Asaukak, Aksai and Sredinny deposits. Final resource definition reverse circulation (RC) drilling for these deposits remains to be completed in the first half of 2007, prior to completing wire framing and geostatistical modelling. In addition RC drilling is scheduled in 2007 for the Sredinny South, Aksai North, North Western and Northern Daugystau deposits. A detailed RC drilling programme is planned for 2007 at a cost of approximately \$2.3 million, and a tender has been issued for a new RC drilling contract.

Trenching and sampling is also planned for the Aksai North, North Western and Northern Daugystau deposits.

The Amantaytau underground sulphide project is regarded as AGF's future main source of high grade ore, and a programme of geotechnical drilling has been completed as part of the decline access design. A total of 659 metres of drilling was carried out using AGF's CS14 coring rig. Metallurgical testwork has been carried out on the Amantaytau Severny sulphide ores and their amenability to ultra fine grinding (UFG) and flotation as an alternative to biological oxidation, which was the process technology originally selected. Testwork on UFG of the sulphidic ores has produced very encouraging results. After initial flotation the UFG results show that recoveries of almost 95% are achievable. Additional sampling and testwork programmes are now being established.

Five holes have been drilled, again using AGF's CS14 rig, from the base of the Amantaytau Centralny oxide pits, to intersect "transition zone" and "primary sulphides" and provide further material for ultra fine grind and flotation testwork. Consideration is being given to the deepening of the Centralny oxide pits (now exhausted) into the underlying sulphides, as this may enable production of high grade sulphide ores to be accelerated, in advance of Severny underground sulphide production.

TRANSFER OF KYRGYZ AND ROMANIAN INTERESTS TO KAZAKHGOLD

On 12 March 2007 Oxus announced that it has agreed in principle to sell to KazakhGold Group Limited (KazakhGold) its 100% interest in Norox Mining Company Limited, which owns 66.67% of Talas Gold Mining Company in Kyrgyzstan, its 50% interest in the Romaltyn joint venture in Romania, and certain exploration assets in Turkey currently owned by Oxus' 86% subsidiary, Marakand Minerals Limited, subject to Marakand board approval. KazakhGold is listed on the London Stock Exchange (KZG.L).

The consideration for the sale of the assets will be satisfied by the issuance to Oxus of 3,541,666 new ordinary shares in KazakhGold (currently valued at approximately \$81 million), plus a deferred payment of up to \$80 million in cash, payable in instalments, provided that KazakhGold obtains the requisite licence to enable it to continue with the development of the Jerooy gold project in Kyrgyzstan. Appropriate due diligence and asset valuations are currently under way, together with the drafting of the relevant legal documentation and it is hoped that the transaction can be completed as contemplated during April.

Oxus has spent approximately \$65 million on the Jerooy gold project to date, which is currently the subject of an investment dispute and international arbitration. This expenditure includes the construction of a processing plant which is approximately 80% complete. Construction was suspended in February 2006.

The Romaltyn joint venture in Romania, in which KazakhGold already has a 50% interest, owns a gold processing plant in Baia Mare and certain exploration licences. These assets were jointly acquired by Oxus and KazakhGold in January 2007 following a successful bid in open auction. Oxus has spent approximately \$4 million on the project to date, including its share of the purchase price.

The transfer of the Hatay and Karakilise exploration licences in Turkey will be subject to KazakhGold's assessment of the economic viability of such assets, the determination of an appropriate fair market value to be paid to Marakand by Oxus, and approval of the Marakand board.

OTHER ACTIVITY

On 30 November 2006 Oxus announced that it had signed a subscription agreement with Zeromax, Uzbekistan's largest private sector company, which brings Zeromax into Oxus as a strategic investor and alliance partner. Pursuant to that agreement Zeromax has purchased 22,255,293 shares and currently owns 6.94% of the Company. The original subscription agreement provided for Zeromax to purchase up to 57 million shares at 21.5 pence per share. Oxus has received a written commitment from Zeromax that the balance of the subscription shares will be paid for by 6 April 2007.

REPORT ON ACTIVITIES (CONTINUED)

As announced in July 2006 Oxus terminated its contract to acquire the Ukrainian assets of Eurogold when it became apparent that Eurogold's approved C1/C2 gold resources were not 578,000 ounces as the Company had been led to believe, but only 364,000 ounces. Oxus offered to pay for the approved ounces, and for the balance once proved up. Eurogold rejected this offer and commenced litigation in the Australian Federal Court. Oxus has opposed the jurisdiction of the Court and awaits the Court's decision. Costs of \$482,000 have been incurred during the period with respect to this litigation.

On 4 August 2003 the Company cancelled 5,000,000 warrants for shares exercisable at 15.25 pence per share, believing that it was entitled to do so. The grantee, Templeton Insurance Limited, disputed this cancellation, and following litigation the warrants were ordered by the court to be reinstated. In the litigation the grantee asserted an entitlement, under an adjustment provision in the original warrant deed, to an additional 3,313,380 warrants. The Company disputes this entitlement and the results of a recent court hearing are currently awaited. During the period a further \$2.35 million was charged to the profit and loss account, representing additional legal costs of \$1.1 million and a provision of \$1.25 million to reflect a reduction in the value to the Company of the reinstated warrants based on the Company's share price at 31 December 2006.

The Board has decided to cancel a total of 2,705,000 options, of which 2,675,000 were held by directors, and which were exercisable at 54p and were due to vest on the first gold pour at Jerooy.

DIRECTORS

As previously announced, on 12 March 2007, Darryl Norton resigned as a director in order to join the Board of KazakhGold as Joint Managing Director as part of the agreement with KazakhGold. Mr Norton served as an alternate director from 1 December 2005 and joined the Board on 8 January 2007. The Company wishes to thank Mr Norton for the time that he served both as an alternate and as an executive director and wishes him every success for the future in his new role with KazakhGold.

PROPOSED DIVIDEND

Whilst announcing the agreement in principle with KazakhGold, the Company also announced that it intends to distribute all or a large portion of the KazakhGold shares arising from the transaction as a dividend to its shareholders. It remains the Company's intention to declare this dividend and further details will be supplied to shareholders following the completion of the KazakhGold transaction.

OUTLOOK

The Group is intent on continuing to build on the recent positive developments. The claims arising from the State audit at AGF have been rejected by the Uzbek courts and operations are returning to normal following a period of severe operational and financial disruption. Vysokovoltnoye will shortly receive its first revenue from silver production and Asaukak has commenced production. The underground sulphide project will be brought into production as quickly as possible and AGF has an impressive potential reserve base from which to generate further significant growth as a gold producer. Exploration will continue apace in order to realise that potential.

The Company will also focus on the strategic alliance with Zeromax in order to evaluate other opportunities in Uzbekistan and to expand the project portfolio.

The transaction with KazakhGold, if completed, will provide a satisfactory resolution to the difficult issues that have arisen at the Jerooy gold project in Kyrgyzstan, and will enable the Company to pay a dividend to its shareholders.

The Group is committed to restoring profitability as a priority and to protecting and enhancing shareholder value during 2007 and beyond.

CONSOLIDATED INCOME STATEMENT

(US\$'000)	Six months ended 31 December 2006 (unaudited)	Six months ended 31 December 2005 (unaudited)	Twelve months ended 30 June 2006 (audited)
Gross revenue	2,144	2,406	3,383
Interest in joint venture			
(Loss) income attributable	(1,220)	4,521	10,169
	924	6,927	13,552
Administration expenses	(3,207)	(1,889)	(5,749)
Deferred revenue expenditure incurred by Marakand Minerals Limited	(0)	(717)	(1,224)
Gross profit	(2,283)	4,321	6,579
Stock-based compensation	160	(653)	(1,393)
Foreign exchange loss	(222)	(123)	(158)
Legal costs arising from abortive 2002 project financing	(2,350)	(287)	(4,617)
(Loss) profit on operations	(4,695)	3,258	411
Net interest receivable			
Group	(758)	78	3
Joint venture	926	957	1,969
	168	1,035	1,972
Profit on sale of investments	313	-	-
(Loss) profit before taxation	(4,214)	4,293	2,383
Tax on profit on ordinary activities	(2)	16	15
(Loss) profit after taxation	(4,216)	4,309	2,398
Minority interests	(16)	(530)	(288)
(Loss) profit for the year	(4,232)	3,779	2,110
(Loss) profit per share (US cents)			
- basic	(1.41)	1.31	0.73
- diluted	(1.40)	1.29	0.71

CONSOLIDATED BALANCE SHEET

(US\$'000)	As at 31 December 2006 (unaudited)	As at 31 December 2005 (unaudited)	As at 30 June 2006 (audited)
Current assets			
Cash and cash equivalents	3,108	7,459	13,717
Trade and other receivables	17,689	11,008	10,172
	20,797	18,467	23,889
Non-current assets			
Exploration and mining properties and other intangible assets	100,695	86,101	95,870
Investments	47,570	49,887	51,318
	148,265	135,988	147,188
	169,062	154,455	171,077
Current liabilities			
Trade and other payables due in less than one year			
Trade and other creditors	6,685	4,466	3,876
Nedbank Limited corporate loan facility	5,000	-	5,000
AGF Phase 2 project development fund	9,314	4,657	4,657
	20,999	9,123	13,533
Non-current liabilities			
Trade and other payables due after one year			
AGF Phase 2 project development fund	1,553	6,209	6,209
Nedbank Limited corporate loan facility	11,250	-	13,750
Leasing	602	547	490
	13,405	6,756	20,449
Minority interests			
	4,009	12,385	4,020
Shareholders' equity			
Capital stock	4,942	4,606	4,774
Reserves	125,707	121,585	128,301
	130,649	126,191	133,075
	169,062	154,455	171,077

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(US\$'000)	Share capital (unaudited)	Capital reserve (unaudited)	Accumulated profit/(loss) (unaudited)	Total (unaudited)	Minority interests (unaudited)	Total (unaudited)
Balance as at 1 July 2005	4,581	119,012	(857)	122,736	12,858	135,594
Shares issued	0	-	-	0	-	0
Warrants & Options exercised	25	709	-	734	-	734
Conversion of directors' remuneration to shares	-	17	-	17	-	17
Stock-based compensation	-	755	(57)	698	57	755
Revaluation of investments	-	(2,303)	-	(2,303)	-	(2,303)
Profit for the period	-	-	4,309	4,309	(530)	3,779
Balance as at 31 December 2005	4,606	118,190	3,395	126,191	12,385	138,576
Shares issued	167	11,105	-	11,272	-	11,272
Warrants & Options exercised	1	12	-	13	-	13
Conversion of directors' remuneration to shares	0	24	-	24	-	24
Stock-based compensation	-	609	57	666	(28)	638
Revaluation of investments	-	(487)	-	(487)	-	(487)
Capital reserve re MML 2006	-	(11,272)	-	(11,272)	-	(11,272)
On consolidation, adjustment of minority interest	-	9,794	(1,215)	8,579	(8,577)	2
Loss for the period	-	-	(1,911)	(1,911)	240	(1,671)
Balance as at 1 July 2006	4,774	127,975	326	133,075	4,020	137,095
Shares issued	167	3,419	-	3,586	-	3,586
Conversion of directors' remuneration to shares	1	31	-	32	-	32
Stock-based compensation	-	(165)	-	(165)	5	(160)
Revaluation of investments	-	(1,663)	-	(1,663)	-	(1,663)
Loss for the period	-	-	(4,216)	(4,216)	(16)	(4,232)
Balance as at 31 December 2006	4,942	129,597	(3,890)	130,649	4,009	134,657

CONSOLIDATED STATEMENT OF CASH FLOWS

(US\$'000)	Six months ended 31 December 2006 (unaudited)	Six months ended 31 December 2005 (unaudited)	Twelve months ended 30 June 2006 (audited)
Cash flows from operating activities			
(Loss) profit for the period	(4,232)	2,981	2,110
Adjustments for:			
Depreciation	103	28	136
Profit on sale of investments	(313)	-	-
Salaries and bonuses converted to shares	32	15	42
Debt for services converted to shares	-	-	503
Loss (income) attributable to joint venture	1,220	(4,168)	(10,169)
Dividend from joint venture	-	-	1,250
Stock-based compensation	(160)	-	1,393
(Profit) loss on foreign exchange	-	-	-
Operating loss before working capital changes	(3,350)	(1,144)	(4,735)
(Increase) decrease in trade and other receivables	(7,517)	2,192	(4,218)
Increase in trade and other payables	422	2,982	25,254
Net cash (used by) generated from operations	(10,445)	4,030	16,301
Cash flows from investing activities			
Capital expenditure and financial investment			
Exploration and mining expenditure	(4,928)	(6,244)	(35,778)
Funding of joint venture's capital expenditure	865	(856)	(572)
Investments	313	-	(895)
Loan	-	-	(416)
Net cash used in investing activities	(3,750)	(7,100)	(37,661)
Cash flows from financing activities			
Warrants and options exercised	-	-	243
Shares issued	3,586	24,503	-
Net cash provided by financing activities	3,586	24,503	243
Net (decrease) increase in cash and cash equivalents	(10,609)	21,433	(21,117)
Cash and cash equivalents as at 1 July	13,717	5,541	34,834
Cash and cash equivalents as at 31 December	3,108	26,974	13,717

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- 1.** The unaudited Interim Consolidated Financial Statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain prior year amounts have been reclassified to conform to account presentation in the current period.
- 2.** Save for the fact that depreciation for this period on plant at Amantaytau has been adjusted to conform to the life of the reserves, these Interim Consolidated Financial Statements follow the same accounting policies and their methods of application as the 2006 accounts and should be read in conjunction with the Company's 2006 audited Consolidated Financial Statements.
- 3.** The interim financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. Statutory accounts for the year ended 30 June 2006 have been filed with the Registrar of Companies.
- 4.** The consolidated income statement includes Oxus Gold plc and its attributable shares of subsidiaries and joint ventures.
- 5.** In accordance with the terms of IFRS2, the cost of stock based compensation, amounting to \$160,000 has been written back during the period.
- 6.** The basic and diluted profit per share has been calculated by reference to a loss, after taxation, of \$4,232,000 (December 2005: \$3,779,000 profit) (June 2006: \$2,110,000 profit) and the weighted average number of ordinary shares in issue of 299,535,057 (December 2005: 287,432,807) (June 2006: 298,120,198).
- 7.** The Directors are not declaring a dividend for this period.
- 8.** Copies of this report are being sent to all shareholders. Additional copies will be available to the public at the registered office, 105 Piccadilly, London, W1J 7NJ and will be posted on the Company's website www.oxusgold.co.uk



www.oxusgold.co.uk

CORPORATE DETAILS

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