

Central Asia Metals Limited

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1. Statement from the Chairman

Following on from the difficult market conditions encountered in late 2008 and the actions taken by the CAML Board during that period to cut back on the cost base of the CAML Group, 2009 has proved to be a period of consolidation. All non essential project activity had been curtailed by January 2009 and the Board embarked on a strategic review of the Group's projects.

In April 2009, Nick Clarke, formerly Managing Director of Oriel Resources plc was appointed Chief Executive Officer (CEO) of the Company and Nigel Robinson was promoted from UK Financial Controller to Chief Financial Officer (CFO). The new management team set about refocusing the priorities of the business and after an initial review of the assets during April and May 2009, decided to concentrate resources on the further development of the Kounrad project and a deep-hole drilling programme at Alag Bayan, close to the Oyu Tolgoi field in Southern Gobi, Mongolia.

The pilot plant continues to be operated on site and in addition to providing invaluable test data on the overall SXEW process and the specific characteristics of the Kounrad dumps, produces approximately 17 tonnes per month of high quality cathode copper. As at 31 December 2009 182 tonnes had been produced at the pilot plant.

Given the increased focus within the CAML Group to develop Kounrad and proceed with the construction of a 10,000 tonne per annum copper cathode Solvent Extraction Electro Winning (SXEW) plant during 2010, a Technical Manager was recruited to oversee the design and construction process. A feasibility study was commissioned in early November 2009 with a Chinese Group, Beijing General Research Institute of Mining and Metallurgy (BGRIMM). Initial results from the feasibility study are encouraging and indicate a low cost of production for the facility and a capital construction cost in the region of c \$47m.

At Alag Bayan, the Company completed both the geophysical survey of the property in July 2009 followed by 6,300m of deep hole drilling. The results from the drilling are encouraging and on the basis of the exploration results so far, an extension to the licence has been granted to June 2012.

During 2009, CAML management reviewed the prospects for both Ereen and Tochtar. Additional drilling was conducted at Ereen during May 2009 in order to enhance the geological data and enable a successful application for conversion to a 30 year mining licence. This was achieved in March 2010 and management is considering an offer on the property. The potential purchaser is currently conducting due diligence.

During the early part of 2009, a decision was taken to leach the existing gold that was currently on the pads at Tochtar. Approximately 495 ounces of gold was produced and sold prior to the acceptance by management of an offer on the property. This transaction is currently still in the process of due diligence.

The remaining projects at Handgait and Kenes were maintained on a care and maintenance basis throughout the year. As at December 2009, Kenes was handed back to the minority partner as it was considered that the work commitments under the sub soil user licence were too onerous for the potential economic returns. An executive decision regarding the future of Handgait is still outstanding and a number of options are being reviewed.

In July 2009 a \$4.9m fund raising was successfully completed by the placing of 7,190,601 ordinary shares at a price of \$0.68. Encouraged by the renewed focus within the Group and in particular the initial results from the feasibility study on Kounrad, CAML management took the decision in December 2009 to start the procedures for an Initial Public Offering (IPO) in 2010.

It is anticipated that c \$60m will need to be raised at the IPO in order to develop the Kounrad facility and provide sufficient working capital for other aspects of the CAML Group's ongoing operations. In April 2010 \$5.1m net of expenses was raised by means of a convertible loan note.



CN Hurst-Brown
Chairman
5 August 2010

2. Board of Directors & Company Information

Nick Clarke **(Chief Executive Officer)**

Nick has 35 years of mining experience, including 16 years spent within senior management positions in production and technical services in South Africa, Ghana and Saudi Arabia. Nick served as the Managing Director of Oriel Resources Plc until its acquisition by OAO Mechel for US\$ 1.5 billion in 2008. In addition, Nick was Managing Director at Wardell Armstrong International Ltd, where he managed numerous multidisciplinary mining projects. He is a graduate of Camborne School of Mines and a Chartered Engineer. Nick is a non-executive director of Obtala Resources Plc, Sunkar Resources Plc, and Caledon Resources Plc.

Nigel Robinson **(Chief Financial Officer)**

Nigel is a member of the Institute of Chartered Accountants in England & Wales and formerly a Royal Navy Officer in the Fleet Air Arm. Upon leaving the Royal Navy, he qualified with KPMG where he stayed for a further 3 years before leaving to work in commerce. He worked for 6 years in management with British Airways Plc before leaving in 2002 to become more involved with smaller enterprises.

The Group also has six Non-Executive Directors;

Nigel Hurst – Brown **(Chairman)**

Nigel is currently Chief Executive of Hotchkis and Wiley (UK) Ltd. Previously he was Chairman of Lloyds Investment Managers (1986-1990), a Director of Mercury Asset Management and later a Managing Director of Merrill Lynch Investment Managers. Nigel is also a Director of Borders & Southern Petroleum

Plc and a Fellow of The Institute of Chartered Accountants in England and Wales.

Alex Capelson

Alex has 30 years of experience as an oil and gas geophysicist and is a Founder of Central Asia Metals Limited (CAML). He is currently CEO of Vostok Energy Ltd and was previously involved with First International Oil Corp, International Energy Services and Imperial Energy Corp.

Robert Cathery

Robert is a founder of CAML and has over 35 years of City experience. He was previously Managing Director and Head of Oil and Gas at Canaccord Europe (2001-2005). Robert is also a Director of Salamander Energy Ltd, SOCO International Plc, Vostok Energy Ltd, and Indovision Plc.

Dr. Michael Price

Michael was formerly joint Global Head of Mining Finance for Barclays Capital and of Resource Banking for NM Rothschild & Sons. Michael is also a Director of GV Gold and Sumatra Copper & Gold.

Dr Edward Bloomstein

Edward has 30 years of experience as a geologist and is a founder and former CEO of CAML. Previously he was at Frontier Mining Ltd, where he managed their Kazakhstan operations, and prior to that he was Chief Geologist at Santa Fe Pacific Gold, where he established their operations in Central Asia. (resigned 04 July 2010)

Frank L. Wells

Frank was previously Director of Business Development and Planning for Newmont Capital, responsible for business development activities in Eastern Europe, Russia and West Africa.

Prior to Newmont Frank worked at Santa Fe Pacific Gold. (resigned 10 July 2010)

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Company Secretary

Tony Hunter

List of advisers

Independent Auditors

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Chartered Accountants and
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1 Embankment Place
London WC2N 6RH

Bankers

HSBC Bank PLC
196 Oxford Street
London W1D 1NT

Solicitors

Ashurst LLP
Broadwalk House
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London EC2A 2HA

3. Directors' Report for the year ended 31 December 2009

The directors present their report and the audited financial statements for the year ended 31 December 2009.

Directors

Details of the Directors are given on page 3. Dr Edward Bloomstein was the Chief Executive Officer (CEO) at the beginning of 2009 but returned to the USA in late March 2009. Mr Frank Wells was the Chief Financial Officer (CFO) at the beginning of 2009 but also returned to the USA in March 2009. Both Edward and Frank remain on the CAML Board as Non Executive Directors.

On April 07 2009, Mr Nick Clarke was appointed CEO and Mr Nigel Robinson was appointed CFO. Both Nick and Nigel were appointed Directors on that date.

Principal activities

Central Asia Metals Limited ("CAML" or "the Company") is the parent company of the CAML Group of companies. CAML is domiciled and incorporated in the UK and the registered office is stated on page 3. The principal activity of the Group is the identification, acquisition and development of gold, copper, molybdenum and other metals deposits in the Central Asia region. The Group structure is detailed in Note 8.

Review of business

Principal risks and uncertainties

The principal risks and uncertainties facing the Group involve the ability to raise funding in order to finance the continued development of the Group's projects as well as the political environments of the countries within which it operates and the exposure to fluctuating commodity prices.

Ongoing Projects

Production & Development Projects

Country	Project	Metal	Licence Date
Kazakhstan	Kounrad	Copper	07 September 2007

This copper project, located 17 km north of Balkhash in central Kazakhstan, has been mined since 1936, originally by the State, and more recently by Kazakhmys. In total 2.9Mt of finished copper was produced between 1936 and 2006 although the open pit is now abandoned.

Detailed records exist for all the material contained within the dumps and they are classified as either oxide, sulphide or mixed ore. Overall it is estimated that there is c 733,000 tonnes of contained copper within these dumps.

In September 2007, CAML began technical evaluation studies for a dump leach project and was awarded ownership through a joint operating agreement (JOA) following a competitive tender. CAML entered into this JOA with Sary Arka, a government owned entity, and thereby acquired a 60% interest in the Kounrad Project.

A \$1.5m Solvent Extraction – Electro Winning (SXEW) demonstration plant was commissioned and installed during the summer of 2008 and has operated successfully through the extremes of winter producing 200kg per day of high quality copper. An extension to the production capacity was installed in April 2009 to increase output to 600kg per day. As at 31 December 182 tonnes of cathode copper had been produced.

An engineering design study by Beijing General Research Institute of Minerals and Metallurgy (BGRIMM) was commissioned in November 2009 for the design of a commercial 10,000 tonne capacity SX-EW plant. This feasibility study has now been completed and management are looking to raise the required finance to commence construction of the plant and move to full scale production by early 2012.

Central Asia Metals Limited

Directors' Report for the year ended 31 December 2009 – continued

The results of the feasibility study indicate an estimated capital cost to construct the SXEW plant of c \$50m and cash operating costs in the region of \$0.38 per lb of copper produced. This is considered to be a low cost operation and the economics of the project appear to be compelling at this stage.

Management plans are now well advanced to commence construction on site and the intention is to use the funds raised in the early part of 2010 to prepare the earthworks and civils for the production facility during the summer of 2010.

Exploration Projects

Country	Project	Metal	Licence Date
Mongolia	Alag Bayan	Copper / Gold	18 August 2008

The 40km² Alag Bayan licence is located in the middle of Mongolia's prolific copper-gold porphyry mineralisation trend, 100km from the world-class Oyu Tolgoi copper/gold deposit and 80km from the Tsagaan Subarga copper deposit. A 750m hole was drilled in 2008 which revealed a large porphyry-style anomaly similar to the footprints shown at Oyu Tolgoi and which it was felt could indicate the presence of sulphide mineralisation at depth.

During July 2009 an Induced Polarisation (IP) survey was conducted across the Alag Bayan area by GoviEx Gold Inc and in early August 2009 CAML commenced a deep hole drilling campaign designed to test the anomalies identified in the latest survey. A total of 6,300m was drilled consisting of 5 holes ranging in depth from 1000m to 1,800m.

The drilling campaign was completed in December 2009 after some local difficulties encountered by the Drilling contractor caused by the ground conditions. The assay results combined with the details recorded by the IP survey were felt to be sufficiently robust to enable an application for a Mining licence during the early part of 2010. In April 2010 the licence application was completed and an extension was granted to June 04 2012. It is understood that the State - approved Reserves at this stage of exploration were confirmed as 1,987,415 tonnes of ore which contained a copper grade of 0.8006%. This equates to 15,911 tonnes of contained copper.

The intention is to develop this project and conduct additional drilling with a strategic partner now that the licence has been secured on the property. Due to the depth of drilling required and the inherent cost associated with such drilling CAML management do not believe it will be possible to develop this project on a stand alone basis and will be seeking partnerships during 2010.

Mongolia	Handgait	Molybdenum	18 May 2007
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This molybdenum deposit is located in the Bulgan province 500 km northwest of Ulaan Baatar near the Russian border. During 2008 the Group completed a drilling programme of 95 holes (18,315m). 16,735 assays have been sampled since acquiring the licence and indications from the geological work performed to date are for a 42,000 tonne Molybdenum resource with a further global resource potential of 280,000 tonnes. The geological data has been reviewed by Wardell Armstrong International and they are in broad agreement with these findings.

During 2009 the property has been under care and maintenance and no additional exploration work has been performed due to the very sharp drop in Molybdenum prices in late 2008 from c \$34 per lb to a low of c \$7 per lb. The price has recovered and is now around c \$18 per lb.

Whilst, CAML management are not actively seeking to dispose of the asset at this point in time, a number of potential purchasers have expressed interest in acquiring the property at values in excess of c \$30m. The intention is to maintain the property on care and maintenance for the time being and consider the options for either further development either on a stand alone basis or with a strategic partner in due course.

Central Asia Metals Limited

Directors' Report for the year ended 31 December 2009 – continued

Projects held for disposal or handed back to Government

Country	Project	Metal	Licence Date
Kazakhstan	Tochtar	Gold	27 April 2006

The mine is located in northwest Kazakhstan near the Russian border. CAML acquired an initial 65% stake in 2006 and then increased its shareholding to 75% in January 2007. The mine was managed and operated from that time during 2007 and 2008 producing a total of c 5,000 ounces of gold.

Whilst conducting production activity, a number of engineering and metallurgical studies were also commissioned in order for CAML management to investigate the further development of the mine. A feasibility study for the mine was developed on the basis of these studies and various proposals were reviewed by management. However, the decision was taken by CAML management in 2009 to sell the mine after reviewing these studies and due consideration of the significant capital requirements associated with further development of the project.

In November 2009, a framework agreement to sell 100% of the property to a Chinese Group was concluded. CAML management were able to agree with the minority shareholders an amount that they were prepared to sell their 25% stake for in order to be able to meet the terms of the framework agreement.

A two month due diligence period whereby the potential purchasers enjoyed an exclusivity period expired early in 2010 although the transaction has still not been concluded. There are a number of other interested parties and management continue working towards a successful sale in 2010.

Kazakhstan	Kenes	Gold	27 April 2007
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This gold exploration project is located in the eastern part of Kazakhstan in the Tian Shan Mountains near the Chinese border. During 2008 the Group completed a drilling and trenching programme of 6 holes (843m) and 234 assays had been sampled. The project was placed on care and maintenance throughout 2009 and subsequently sold back to the minority shareholder in December 2009 for a nominal amount.

Mongolia	Ereen	Gold	03 May 2007
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This gold exploration project is located between Centerra's Boroo mine and the Gatsurst project in the Selenge province approximately 140 km north of Ulaan Baatar. At the end of 2008, the Group had completed a drilling programme of 44 holes (9,881m) and a total of 6,709 assays had been sampled since acquiring the licence.

During 2009 a drilling programme was conducted on the site in order to obtain further geological data and thereby enable the conversion of the exploration licences associated with the project to be converted into 30 year mining licences. This was successfully achieved in April 2010. A total of 1,792m was drilled in May 2009.

Following on from the Strategic review of the Group by the new management, a decision was taken to actively sell the mine during 2009. A number of parties expressed interest during the latter part of 2009, although as at the year end no sale had been achieved.

Central Asia Metals Limited

Directors' Report for the year ended 31 December 2009 – continued

Financial review

The consolidated net loss after taxation of the Group in respect of the year ended 31 December 2009 amounted to \$15.0m (2008 net loss \$13.8m).

The total assets of the Group amounted to \$20.2m (2008: \$27.1m) which includes intangible assets of \$11.5m (2008: \$14.9m). Intangible assets include accumulated deferred exploration costs in respect of the projects. The Group's policy is to capitalise these costs pending determination of the feasibility of the project to which they relate.

Cash balances of the Group amounted to \$1.3m (2008: \$4.6m). Over the course of the year the Group raised \$4.9m through a private placing of 7,190,601 shares.

The Group had \$1.0m of debt as at 31 December 2009 (2008 : \$1.65m).

Going concern

The Group has significant funding needs to finance the development of its various projects, continue exploration at its properties and provide ongoing working capital. In order to support these funding needs, in May 2009, CAML negotiated an agreement with Lansdowne Holdings and Artemis whereby they agreed to support a private placing of shares to raise \$7.5m. The agreement provided for the funds to be raised in two tranches with the second tranche contingent upon CAML requiring the funds.

The first tranche of funding for \$4.9m was completed in July 2009 through a private placing of 7,190,601 shares at a share price of \$0.68. The second tranche of funding was never called upon by CAML management due to the decision in December 2009 to prepare the Company for an Initial Public Offering (IPO) in 2010 and the intention to raise up to \$7m in pre IPO finance in April 2010. Further, a framework agreement had been signed in November 2009 for the sale of Tochtar, however, the transaction had still to be completed.

As at 31 December 2009, the Group had remaining cash resources of c \$1.3m which management felt to be sufficient funds to manage the business with during the first quarter of 2010 prior to raising the pre IPO finance or the potential receipt of funds from the sale of Tochtar. In April 2010 \$5.4m (gross) was raised as a convertible loan note as part of the pre IPO fund raising. As a result, CAML management believe they have sufficient funding in place to satisfy working capital requirements through to 31 July 2011.

The Group remains dependent on further successful fund raising to complete the construction of the SXEW plant at Kounrad. CAML management has estimated that it requires an additional \$60m over the next 24 months to complete the project and provide working capital for the CAML Group. It is planned that these funds will be obtained primarily from the issuance of equity at the forthcoming IPO in September 2010, but also from the potential sale of non-core assets.

Management is confident that these actions will take place within the next 12 month period but there is indication of the existence of a material uncertainty mainly in the form of raising new funds which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was not able to continue as a going concern.

Strategy and future developments

The Board's intention is to construct a 10,000 tonne per annum SXEW plant at Kounrad once the monies have been raised through an IPO. The final feasibility report was received in April 2010 which indicated a required capital cost for the plant of c \$50m. The pre IPO funds will be partly used to commence groundworks in the summer of 2010 and place orders for long lead time items of equipment.

The feasibility study has concluded that high quality copper cathodes can be produced at an estimated production cost of \$1.10 per kilogramme which would make the operation a low cost producer in World terms. It is envisaged at this stage that full scale production could be achieved by early 2012.

In addition to the construction of the commercial production plant, it is planned to further develop the Kounrad project by additional testing of the sulphide and waste dumps and to gain more experience from the pilot plant in the SX-EW process of copper production.

Central Asia Metals Limited

Directors' Report for the year ended 31 December 2009 – continued

In July 2009 a successful geophysics survey at the Alag Bayan property was conducted by GoviEx followed by a deep hole drilling programme of 5 holes to depths of approximately 1,500m. This commenced in August 2009 and was completed in December 2009. On the basis of the results and IP survey, CAML Management applied for a licence extension on the property. This was obtained in April 2010 and extends the licence period to early June 2012. The intention is to seek partners for the further development of this potentially valuable property.

All other assets at this time are being maintained by CAML in order to ensure continued ownership of the asset either with a view to a potential sale or future development. In the case of Tochtar and Ereen these assets have been actively marketed for disposal and both currently undergoing due diligence assessment by potential purchasers.

The sharp drop in the price of molybdenum during late 2008 and the early parts of 2009 caused the Company to defer further development of Handgait. At this stage, management is keeping a close watch on market movements with a view to either further developing the property or disposing of it in the near future.

Kenes was considered uneconomic and handed back to the local Kazakhstan minority partner in December 2010.

The countries in which the Group operates are reasonably stable politically and the Group strives to maintain good working relationships with host Governments and with its local partners. The Company considers the mining regimes in each country where it operates to be favourable to foreign investment. All of the Company's exploration licences and permits are current.

The Group recognises that the local communities in the areas that it operates are key stakeholders in the projects and is committed to implementing environmental and safety standards in accordance with best industry practice.

Directors' interests

The interests of the Directors in the issued share capital of the Company are as follows:

Name	No. of Shares 30 June 2010	No. of Shares held 31 Dec 2009	No. of Shares held 31 Dec 2008
RM Cathery	4,254,000	4,254,000	4,254,000
E Bloomstein	3,992,896	3,992,896	4,189,000
CN Hurst-Brown	694,065	557,000	557,000
FL Wells	451,000	451,000	451,000
M A Price ¹	445,000	445,000	445,000
AA Capelson ²	56,000	56,000	56,000

Notes

- 1 6,000 shares not included in the above amount are registered in the name of Shona Price, the wife of Dr. Michael Price.
- 2 Alex Capelson is also a trustee and beneficiary of the Commonwealth American Partners LP Trust, which has an interest in 9,713,588 shares

Director's indemnity insurance

During the year, Directors and Officers liability insurance was maintained for Directors and other Officers of the Group.

Creditor payment policy

It is the Group's policy to settle all amounts due to creditors in accordance with agreed terms and conditions, provided that all trading terms and conditions have been complied with. At 31 December 2009 the Group had \$1,460,604 (2008: \$2,043,776) of trade payables which equated to approximately 93 creditor days (2008: 63 days).

Central Asia Metals Limited

Directors' Report for the year ended 31 December 2009 – continued

Financial Instruments

The Group's exposure to financial risks and its policies in relation to the use of financial instruments is discussed in greater detail in note 3 to the accounts.

International accounting standards

For the year ending 31 December 2009, the Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Contracts of significance

In May 2006 a contract was entered into between Commonwealth American Partners LLP (CAP) and Tochtar LLP (a 65% subsidiary at the time) for the advanced purchase of approximately 3,600 ounces of gold at an agreed value per ounce of \$500. The contract was determined at the time as beneficial for both parties and the agreed value per ounce was determined on a reasonable commercial basis. Further details are given in Note 16.

In November 2009, a full and final settlement of \$1m was agreed between the parties and the contracts were novated with the liability for settlement being transferred to the Company. In turn, it was further agreed that the monetary liability of \$1m would be settled in ordinary shares of The Company at the market rate of \$0.68 as determined by the last fund raising in July 2009.

Post Balance sheet events

Convertible loan notes

In April 2010 the Company raised a total of \$5.4m gross by issuing convertible loan notes which are expected to convert into ordinary shares at the IPO. The loan notes carry a 30% discount to the IPO price provided the Company manages to complete the IPO before 30 September 2010 and 40% thereafter up until the maturity of the loan notes one year after issuance. If converted on maturity date a 48% discount would apply.

Auditors and disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all necessary steps to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the annual general meeting.

Directors' Report for the year ended 31 December 2009 – continued

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 group and the company 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;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



Tony Hunter
Company Secretary
5 August 2010

4. INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CENTRAL ASIA METALS LIMITED

We have audited the group and parent company financial statements (the “financial statements”) of Central Asia Metals Limited for the year ended 31 December 2009 which comprise Group and Parent Company Statements of Financial Position, the Group Income Statement, the Group Statement of Comprehensive Income, , the Group and Parent Company Statement of Changes in Equity, the Group and Parent Company Cash Flow Statements and the related notes. 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 regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, 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 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss and the group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

We have nothing 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 returns adequate for our audit have not been received from branches not visited by us; 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; or
- we have not received all the information and explanations we require for our audit.

Emphasis of matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group is dependent on further successful fund raising from the completion of an initial public offering on AIM or on proceeds from sale of specific non – core assets. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.



Nick Blackwood (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 August 2010

Central Asia Metals Limited

Statement of Financial Position at 31 December 2009

		Group As at 31 December		Company As at 31 December	
Assets	Note	2009 \$	2008 \$	2009 \$	2008 \$
Non-Current Assets					
Property, Plant and Equipment	6	2,089,040	4,143,661	23,893	82,359
Intangible Assets	7	11,542,686	14,904,286	1,175,636	1,302,000
Investments	8	-	-	295,853	405,853
Trade and Other Receivables	9	603,488	1,745,669	33,663,353	34,031,823
		14,235,214	20,793,616	35,158,735	35,822,035
Current Assets					
Inventory	10	275,986	475,266	-	-
Trade and Other Receivables	9	742,296	1,168,029	388,280	264,223
Cash and Cash Equivalents	11	1,325,088	4,629,560	1,194,527	4,375,857
		2,343,370	6,272,855	1,582,807	4,640,080
Assets of the disposal group classified as held for sale	18	3,646,307	-	110,000	-
		5,989,677	6,272,855	1,692,807	4,640,080
Total assets		20,224,891	27,066,471	36,851,542	40,462,115
Equity attributable to owners of the parent					
Ordinary Shares	12	389,461	292,208	389,461	292,208
Share Premium	12	53,460,880	46,944,935	53,460,880	46,944,935
Treasury Shares	12	(1,723,416)	-	(1,723,416)	-
Other Reserves	13	5,044,551	829,229	1,496,277	672,000
Retained Earnings		(40,927,071)	(25,925,365)	(18,571,501)	(8,229,796)
Total Equity		16,244,405	22,141,007	35,051,701	39,679,347
Non-Current Liabilities					
Trade and Other Payables	15	-	19,522	32,160	30,065
Provision for Liabilities and Charges	17	441,257	1,231,263	-	-
		441,257	1,250,785	32,160	30,065
Current Liabilities					
Trade and Other Payables	15	1,460,604	2,024,254	767,681	752,703
Borrowings	16	1,000,000	1,650,425	1,000,000	-
		2,460,604	3,674,679	1,767,681	752,703
Liabilities of disposal group classified as held for sale	18	1,078,625	-	-	-
		3,539,229	3,674,679	1,767,681	752,703
Total Liabilities		3,980,486	4,925,464	1,799,841	782,768
Total Equity and Liabilities		20,224,891	27,066,471	36,851,542	40,462,115

The notes on pages 20 to 53 are an integral part of these consolidated financial statements. The financial statements on pages 13 to 53 were authorised for issue by the Board of Directors on 5 August 2010 and were signed on its behalf by;

Nick Clarke
Chief Executive

Nigel Robinson
Chief Financial Officer

Central Asia Metals Limited

The notes on pages 20 to 53 are an integral part of these consolidated financial statements. The financial statements on pages 13 to 53 were authorised for issue by the Board of Directors on 5 August 2010 and were signed on its behalf by;

Nick Clarke
Chief Executive

Nigel Robinson
Chief Financial Officer

Consolidated Income Statement for the year ended 31 December 2009

	Note	\$ 2009	\$ 2008
Continuing operations			
Revenue	5	1,140,979	2,722,032
Cost of Sales	20	(1,116,343)	(4,413,337)
Gross Profit/(Loss)		24,636	(1,691,305)
Other income	16	1,089,062	-
General and administrative expenses, including:			
- Impairment of Inventory	10	(95,056)	(1,240,137)
- Exchange rate differences	21	(6,207,184)	(1,182,696)
- Other General & Administrative Expenses	20	(9,327,613)	(9,872,875)
Total General and administrative expenses		(15,629,853)	(12,295,708)
Other expenses	22	(95,040)	-
Finance Costs, net	28	(390,511)	235,004
Loss before Income Tax		(15,001,706)	(13,752,009)
Income Tax	19	-	-
Loss for the year		(15,001,706)	(13,752,009)
Loss Attributable to:			
- Owners of the parent		(15,001,706)	(13,752,009)
Loss per share attributable to the equity holders of the company during the year			
Basic loss per share	23	\$0.46	\$0.48

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement and statement of comprehensive income. The Company's loss in 2009 is \$10,341,705 (2008: \$4,376,790).

Central Asia Metals Limited

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

	\$ 2009	\$ 2008
Profit/(Loss) for the year	(15,001,706)	(13,752,009)
Other comprehensive income:		
Currency translation differences	3,391,045	310,845
Other comprehensive income for the year, net of tax	3,391,045	310,845
Total comprehensive income for the year	(11,610,661)	(13,441,164)
Attributable to:		
- Owners of the parent	(11,610,661)	(13,441,164)

Central Asia Metals Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2009

Group	Share capital	Share Premium	Treasury Shares	Other Reserves	Retained Earnings	Total	Non-controlling Interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$
At 31 December 2007	280,520	41,131,593	-	(153,616)	(12,173,356)	29,085,141	140,549	29,225,690
Total comprehensive income	-	-	-	310,845	(13,752,009)	(13,441,164)	-	(13,441,164)
Transactions with owners								
Issue of Shares	11,688	5,813,342	-	-	-	5,825,030	-	5,825,030
Issue of Share Options	-	-	-	672,000	-	672,000	-	672,000
Reduction in non-controlling interests	-	-	-	-	-	-	(140,549)	(140,549)
Total transactions with owners	11,688	5,813,342	-	672,000	-	6,497,030	(140,549)	6,356,481
At 31 December 2008	292,208	46,944,935	-	829,229	(25,925,365)	22,141,007	-	22,141,007
Total comprehensive income	-	-	-	3,391,045	(15,001,706)	(11,610,661)	-	(11,610,661)
Transactions with owners								
Issue of Shares	71,906	4,817,704	-	-	-	4,889,610	-	4,889,610
Issue of Share Options	-	-	-	805,677	-	805,677	-	805,677
EBT shares granted	25,347	1,698,241	(1,723,416)	18,600	-	18,772	-	18,772
Total transactions with owners	97,253	6,515,945	(1,723,416)	824,277	-	5,714,059	-	5,714,059
At 31 December 2009	389,461	53,460,880	(1,723,416)	5,044,551	(40,927,071)	16,244,405	-	16,244,405

Central Asia Metals Limited

Company Statement of Changes in Equity for the year ended 31 December 2009

Company	Share capital	Share Premium	Treasury Shares	Share- based payment reserve	Retained earnings	Total Equity
	\$	\$	\$	\$	\$	\$
At 31 December 2007	280,520	41,131,593	-	-	(3,853,006)	37,559,107
Total comprehensive income	-	-	-	-	(4,376,790)	(4,376,790)
Transactions with owners						
Issue of Shares	11,688	5,813,342	-	-	-	5,825,030
Issue of Share Options	-	-	-	672,000	-	672,000
Total transactions with owners	11,688	5,813,342	-	672,000	-	6,497,030
At 31 December 2008	292,208	46,944,935	-	672,000	(8,229,796)	39,679,347
Total comprehensive income	-	-	-	-	(10,341,705)	(10,341,705)
Transactions with owners						
Issue of Shares	71,906	4,817,704	-	-	-	4,889,610
Issue of Share Options	-	-	-	805,677	-	805,677
EBT shares granted	25,347	1,698,241	(1,723,416)	18,600	-	18,772
Total transactions with owners	97,253	6,515,945	(1,723,416)	824,277	-	5,714,059
At 31 December 2009	389,461	53,460,880	(1,723,416)	1,496,277	(18,571,501)	35,051,701

Central Asia Metals Limited

Consolidated Statement of Cash flows for the year ended 31 December 2009

	Note	Group		Company	
		As at 31 December		As at 31 December	
		\$	\$	\$	\$
		2009	2008	2009	2008
Cash Flows from Operating Activities					
Cash (Absorbed by) / Generated from operations	29	(3,625,224)	(10,553,775)	1,472,716	(3,732,795)
Interest Paid		(36)	(7,642)	(36)	-
Income Tax Paid	19	-	-	-	-
Net Cash (Absorbed by) / Generated from Operating Activities		(3,625,260)	(10,561,417)	1,472,680	(3,732,795)
Cash Flows from Investing Activities					
Acquisition of Subsidiaries	7	-	-	-	(64,973)
Sale of Subsidiaries, net of cash disposed of	22	(409)	-	-	-
Purchases of Property, Plant and Equipment	6	(361,106)	(3,176,784)	-	(53,380)
Proceeds from sale of Property, Plant and Equipment		6,505	-	-	-
Purchase of Intangible Assets	7	(264,549)	(2,282,693)	(5,731)	(1,000,000)
Exploration Costs Capitalised	7	(3,957,210)	(8,626,257)	-	-
Loans to JV Partners / Subsidiaries	9	-	(906,241)	(9,550,092)	(17,116,920)
Interest Received		13,163	309,147	12,031	263,704
Net Cash used in Investing Activities		(4,563,606)	(14,682,828)	(9,543,792)	(17,971,569)
Cash Flows from Financing Activities					
Proceeds from Issuance of Ordinary Shares	12	6,613,198	3,825,031	6,613,198	3,825,031
Purchase of treasury shares	12	(1,723,416)	-	(1,723,416)	-
Net Cash used in Financing Activity		4,889,782	3,825,031	4,889,782	3,825,031
Net (Decrease) / Increase in Cash and Cash Equivalents		(3,299,084)	(21,419,214)	(3,181,330)	(17,879,333)
Cash and Cash Equivalents at the Beginning of the Year	11	4,629,560	26,048,774	4,375,857	22,255,190
Cash and Cash Equivalents at the End of the Year	11	1,330,476	4,629,560	1,194,527	4,375,857

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009

1. General Information

Nature of Business

Central Asia Metals Limited ("CAML" or "the Company") and its subsidiaries ("the Group") are a mining and exploration organisation with operations in Kazakhstan and Mongolia and a parent holding company based in the United Kingdom.

The Group's principal business activities are the exploration and subsequent development of mines primarily in the Central Asia region. The Group currently has mining interests in gold, copper and molybdenum.

CAML is a private limited company incorporated and domiciled in England & Wales. The Company's registered number is 5559627.

Going Concern

The Group has significant funding needs to finance the development of its various projects, continue exploration at its properties and provide ongoing working capital. In order to support these funding needs, in May 2009, CAML negotiated an agreement with Lansdowne Holdings and Artemis whereby they agreed to support a private placing of shares to raise \$7.5m. The agreement provided for the funds to be raised in two tranches with the second tranche contingent upon CAML requiring the funds.

The first tranche of funding for \$4.9m was completed in July 2009 through a private placing of 7,190,601 shares at a share price of \$0.68. The second tranche of funding was never called upon by CAML management due to the decision in December 2009 to prepare the Company for an Initial Public Offering (IPO) in 2010 and the intention to raise up to \$7m in pre IPO finance in April 2010. Further, a framework agreement had been signed in November 2009 for the sale of Tochtar, however, the transaction had still to be completed.

As at 31 December 2009, the Group had remaining cash resources of c \$1.3m which management felt to be sufficient funds to manage the business with during the first quarter of 2010 prior to raising the pre IPO finance or the potential receipt of funds from the sale of Tochtar. In April 2010 \$5.4m (gross) was raised as a convertible loan note as part of the pre IPO fund raising. As a result, CAML management believe they have sufficient funding in place to satisfy working capital requirements through to 31 July 2011.

The Group remains dependent on further successful fund raising to complete the construction of the SXEW plant at Kounrad. CAML management has estimated that it requires an additional \$60m over the next 24 months to complete the project and provide working capital for the CAML Group. It is planned that these funds will be obtained primarily from the issuance of equity at the forthcoming IPO in September 2010, but also from the potential sale of non-core assets.

Management is confident that these actions will take place within the next 12 month period but there is indication of the existence of a material uncertainty mainly in the form of raising new funds which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was not able to continue as a going concern.

2. Summary of Significant Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the year, unless otherwise stated.

Basis of Preparation

The Group's consolidated financial statements have been prepared in accordance with International Finance Reporting standards ("IFRS") as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS as they apply to the financial statements of the Group for the year ended 31 December 2009. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2009.

The Group financial statements are presented in US Dollars (\$).

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are explained in note 4.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted by the Group

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

IFRS 8, 'Operating segments', sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers. IFRS 8 achieves convergence with the US accounting standard, SFAS 131 'Disclosures about Segments of an Enterprise and Related Information' with minor differences. The Group adopted this standard from 1 January 2009. The adoption resulted in revision of the reporting segments, which are now done by the project basis. More information on the reportable segments is disclosed in the Note 5.

IAS 23, 'Borrowing costs', removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The adoption of this standard doesn't have a material impact on the Group or Company's financial statements.

IAS 1 (revised), 'Presentation of Financial Statements', requires changes to the presentation of financial statements and adopts revised titles for the primary statements, although companies may continue to use the existing titles. The Group chosen to present items of income and expense recognised in the year in two statements comprising a separate income statement, which displays components of profit or loss; and a statement of comprehensive income, which begins with profit or loss and displays components of other comprehensive income.

IFRS 2, (amendment), 'Share-based payment', clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company. The adoption of this standard doesn't have a material impact on the Group or Company's financial statements.

IFRS 7, 'Financial Instruments – Disclosures' (amendment), effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. As the change in accounting policy only results in additional disclosures, there is no impact on the Group or Company's financial statements.

IAS 32, (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation', addresses the classification as a liability or as equity of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The adoption of this standard doesn't have a material impact on the Group or Company's financial statements.

IAS 36 (amendment), 'Impairment of assets', is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The adoption of this standard doesn't have a material impact on the Group or Company's financial statements.

IAS 38 (amendment), 'Intangible assets', the amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The adoption of this standard doesn't have a material impact on the Group or Company's financial statements.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

New IFRS accounting standards and interpretations not yet adopted

The Company has yet to adopt the following standards and interpretations. The standards and interpretations listed below are not expected to have a material impact on the Group or Company's consolidated results or assets and liabilities.

IFRIC 17, 'Distribution of non-cash assets to owners' – effective on or after 1 July 2009. The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and the Company will apply IFRIC 17 from 1 January 2010.

IFRS 3R, 'Business Combinations' – effective from 1 July 2009. Makes a number of changes to the accounting for business combinations, including requirements that all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income; an option to calculate goodwill based on the parent's share of net assets only or to include goodwill related to the minority interest; and a requirement that all transaction costs be expensed. IFRS 3R will be adopted by the Company with effect from 1 January 2010 and will be applied prospectively to all business combinations from 1 January 2010.

IAS 27R, 'Consolidated and separate financial statements' – effective from 1 July 2009. Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The revised standard also specifies the accounting when control is lost. IAS 27R will be adopted by the Group and the Company on 1 January 2010.

IFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations', the amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). The Group and the Company will apply IFRS 5 (amendment) from 1 January 2010.

IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and the Company will apply IAS 1 (amendment) from 1 January 2010.

IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and The Group and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The Group and the Company will apply IAS 38 (amendment) from 1 January 2010.

IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The Group and the Company will apply IFRS 2 (amendments) from 1 January 2010. The adoption of this standard is not expected to have a material impact on the Group or Company's financial statements.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Basis of Consolidation

Subsidiaries

The Group financial statements consolidate the financial statements of CAML and the entities it controls drawn up to 31 December 2009.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and it continues to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

The financial statements of subsidiaries used in the preparation of consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated balance sheet distinct from parent shareholder's equity.

Where losses are incurred by a partially owned subsidiary, they are consolidated such that the non-controlling interests' share in the losses is apportioned in the same way as profits. Where the subsidiary makes continuing losses such that the non-controlling interests' share of the losses in a period exceeds its interest in equity, the allocation of losses to the minority ceases and the loss is allocated against the parent company holding.

Where profits are then made in future periods, such profits are then allocated to the parent company until all unrecognised losses attributable to the non-controlling interests but absorbed by the parent are recovered at which point, profits are allocated as normal.

Joint Ventures

As mentioned in note 7, the Group operates the Kounrad copper project under a joint operating agreement (JOA) with Sary Arka, a regional development company owned by the Kazakhstan government. The project is managed through two companies, Kounrad Copper Company and Kounrad Mining Company.

Kounrad Copper Company was set up as part of the arrangements under the JOA and is the main company involved in the construction of the commercial plant in the future. The company is a jointly owned entity with CAML owning 60% through its Dutch subsidiary, CAML Kazakhstan BV, and Sary Arka owning the remaining 40%. As such the company has been accounted under IAS 31 and has been proportionately consolidated on a 60:40 basis.

Kounrad Mining Company is the sub soil user holder and is 100% owned by Sary Kazna. The accounting for this element of the Joint Venture operation is also by means of proportional consolidation based on the fact that this element the operation at Kounrad is deemed as a jointly controlled asset.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

The Group's revenue, operating losses and total assets are shown in note 5.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 – continued

Foreign Currency Translation

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in US Dollars, which is the Company's functional and presentation currency.

Transactions in currencies other than the functional currency are initially recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows;

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at average exchange rates;
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

The cost of the item also includes the cost of decommissioning any buildings or plant and equipment and making good the site, where a present obligation exists to undertake the restoration work.

Depreciation is provided on all property, plant and equipment on a straight-line basis over its expected useful life as follows;

- | | |
|-----------------------|-----------------------------|
| • Mining Property | - over the life of the mine |
| • Plant and Equipment | - over 5 to 15 years |
| • Motor Vehicles | - over 5 to 10 years |
| • Office Equipment | - over 2 to 10 years |

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Intangible Assets

Intangible assets comprise mining licences and permits, software and deferred exploration and evaluation costs.

Goodwill

All business combinations in the Group are accounted for under IFRS 3 using the purchase method. Any excess of cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

On the acquisition of a subsidiary, the purchase consideration is allocated to the assets, liabilities and contingent liabilities on the basis of their fair value at the date of acquisition. The excess of the cost of the acquisition over the fair value of the Group's share of identifiable net assets of the subsidiary acquired is recognised as positive goodwill.

Any excess of the fair value of the Group's share of identifiable net assets of the subsidiary exceeds the cost of the acquisition is recognised directly in the income statement.

For the purpose of impairment testing, goodwill is allocated to the cash generating unit expected to benefit from the business combination in which the goodwill arose. Where the recoverable amount is less than the carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to an entity is taken into account when determining the gain or loss on disposal of the unit.

Mining Licences, Permits and Software

The historical cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with a finite life have no residual value and are amortised on a straight line basis over their expected useful lives with charges included in administrative expenses as follows;

- Computer software - over 2 to 5 years
- Permits and Mining licences - over the duration of the legal agreement.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Accounting for Mineral Resources

Exploration and evaluation expenditure is accounted for in line with IFRS 6.

Mining Operations

The Group recognises five key phases in the working lives of its mining operations and these are as follows;

- **Exploration** – the active search for resources suitable for commercial exploitation, including such activities as exploratory drilling, trenching, sampling and associated geological studies
 - **Evaluation** – the technical feasibility and commercial viability studies that lead to a management decision to develop a mine
 - **Development** – the preparation of a site for production purposes
 - **Production** - the extraction and processing of mineral deposits for commercial sale
 - **Closure and rehabilitation** – the activities and obligations associated with the cessation of commercial production
- The Group has operations that comprise the first 4 of the above phases.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Deferred Exploration & Evaluation expenditure

All expenditure incurred prior to obtaining the legal rights to explore an area of interest is written off as incurred to the income statement.

Once legal rights have been obtained to explore an area of interest all exploration and evaluation costs related to the area are carried forward as an asset in the balance sheet where it is considered probable that the costs will be recouped through the successful development and exploitation of the area of interest or alternatively by its sale.

Capitalised exploration and evaluation expenditure is written off where it is deemed by management that the above conditions are no longer satisfied.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. Exploration and evaluation expenditure capitalised includes acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and activities in relation to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource.

General and administrative costs are allocated to an exploration and evaluation asset only to the extent that those costs can be related directly to operational activities in the relevant area of interest.

The recoverability of deferred exploration costs is dependent upon the discovery of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to complete the development of ore reserves and future profitable production or proceeds from the disposal thereof.

Development expenditure

Once the technical and commercial viability of extracting a mineral resource has been proven, expenditure related to the development of the area of interest are no longer capitalised as exploration and evaluation assets but as 'Mining Property' under Property, Plant and Equipment.

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises costs directly attributable to the construction of a mine and the related infrastructure, together with any general and administrative overheads that can be related directly to the development activity.

No depreciation is recognised in respect of the capitalised mine development costs until such time as a management decision is taken to proceed to the production phase.

Mine properties are tested for impairment in accordance with the note on impairment testing.

Production cost

Once production commences all costs incurred are expensed and accumulated development costs (which at this stage will include accumulated exploration and evaluation costs) are depreciated.

Pre production expenses incurred as operational activity is increased to a level of commercial production are expensed as incurred and any revenue generated during this phase is included in the income statement.

Any further development expenditure incurred at the area of interest after the commencement of commercial production is carried forward as part of the mining property asset where it is probable that additional future economic benefits associated with the expenditure will arise. Otherwise such expenditure is classified as a cost of production.

Depreciation is charged on the basis of units-of-production, with separate calculations being made for each area of interest. The units of production basis results in a depreciation charge proportional to the depletion of the proved and probable reserves.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Impairment of Non-Financial Assets

The Group carries out impairment testing on all assets when there exists an indication of an impairment. If any such indication exists the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell or its value in use.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

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 risks specific to the asset.

The best evidence of an asset's fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value less costs to sell is based on the best available information to reflect the amount the Group could receive for the cash-generating unit in an arm's length sale. In some cases this is estimated using a discounted cash flow analysis.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

Assets held for sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

Revenue Recognition

Revenue represents the fair value of consideration received from sales of metal to an end user, net of any value added tax. It is measured as the consideration received for the metal after deduction of sales commissions and any other taxes. The value of the consideration is fair value which equates to the spot price on the date of sale or the contractually agreed price.

Revenue is only recognised at the point when the following criteria are satisfied:

- The significant risks and rewards of ownership of the product have been transferred to the buyer;
- No managerial control remains over the metal product; and
- The amount of revenue earned can be accurately measured.

Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

The cost of finished goods and work in progress comprises raw materials, direct labour and all other direct costs associated with mining the ore and processing it to a saleable product.

Net realisable value is the estimated selling price in the ordinary course of business, less any further costs expected to be incurred to completion.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Current and Deferred Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised when they arise from timing differences where their recoverability in the short term is regarded as being probable. Deferred tax balances are not discounted.

Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Investments

Investments in subsidiaries are recorded at cost less amounts to be written off.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share Based Compensation

The Group operates a Share Option Plan, the rules of which were approved by the Group on 14 December 2007. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Financial Liabilities Designated at Fair Value through Profit or Loss

Financial liabilities designated at fair value through profit or loss are financial liabilities incurred to assist trading and set up of group businesses. A financial liability is classified in this category if acquired principally for the purpose of financing the Group operations in the short-term and will not be repaid in cash.

The Group incurred such a financial liability in 2006 when setting up the funding for Tochtar LLP. The Group received \$1,798,750 in exchange for settlement of the loan by the payment of future gold production. This transaction has been accounted for as a financial liability designated at fair value through profit or loss.

The above financial liability was designated at fair value at inception because it contained an embedded derivative which had significantly affected the cash flows of the transaction, given that the repayment was denominated in the commodity. Upon initial recognition of such a financial liability the fair value is assessed by reference to the forward price of the commodity based on the contractual delivery dates. Year end fair values are based on the 12 month forward price of the commodity as at that date. All mark-to-market gains and losses are taken to finance income and costs in the income statement.

Trade and Other Receivables

Trade and other Receivables do not carry interest and are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists. Where it is felt that impairment has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Trade and Other Payables

Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Short term borrowings are accounted for based on the amount of funds actually received. 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. Borrowing are subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions for environmental restoration of mining operations are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. Financial Risk Factors

The Group's activities expose it to a variety of financial risks, the key exposures being:

Interest Rate Risk

The Group is primarily funded by equity capital and has limited exposure to interest rate risk. As at 31 December 2009, the Group had borrowings of \$1m and it had been agreed that this would be converted into equity early in 2010. This was completed in February 2010.

Credit Risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Foreign Exchange Risk

The Group operates primarily in Central Asia and is exposed to foreign exchange risk arising from the various currencies it uses within the region, namely the Mongolian Tugrik and Kazakhstan Tenge. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investment in foreign operations. The Group's policy is to hold the major portion of its cash balances in US Dollars so as to provide a natural economic hedge against the Group's liabilities which are principally US Dollar denominated or US Dollar determined.

Commodities Price Risk

The Group's direct exposure to commodities price changes is currently limited due to the stage of development of the Group's mining operations. The economic feasibility and viability of the Group's mining projects are closely linked to the changes in commodity prices. Management is always conscious of the impact of commodity price changes on the economics of the Group's projects. Financial models for projects are maintained and regularly reviewed for changes in commodity prices.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash reserves to fund the Group's exploration and operating activities. Management monitors the forecasts of the Group's cash flows and cash balances monthly and raises funds in discrete tranches to manage the activities through to revenue generation. Current cash resources are sufficient to enable the Group to operate until 30 September 2010 and the Company is in the middle of an IPO process which is expected to provide sufficient funding through to 31 December 2011.

Political Risk

The Group operates in areas of the world that are subject to political risk due to the impact of changing legislation on the operating and exploration environments that are imposed and changed by the ruling parties within the countries. The Group manages this risk by complying with all the relevant legislation and working at maintaining close ties with government contacts within the countries.

Capital Risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group manages its capital in order to provide sufficient funds for the Group's activities. Future capital requirements are regularly assessed and Board decisions taken as to the most appropriate source for obtaining the required funds, be it through internal revenue streams, external fund raising, issuing new shares or selling assets.

4. Critical Accounting Estimates and Judgments

The Group has three key areas where critical accounting estimates and judgements are required that could have a material impact on the financial statements:

Decommissioning and site rehabilitation estimates

Provision is made for the costs of decommissioning and site rehabilitation costs when the related environmental disturbance takes place. Provisions are recognised at the net present value of future expected costs.

The provision recognised represents management's best estimate of the costs that will be incurred, but significant judgement is required as many of these costs will not crystallise until the end of the life of the mine. Estimates are reviewed annually and are based on current contractual and regulatory requirements and the estimated useful life of mines. Engineering and feasibility studies are undertaken periodically; however significant changes in the estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period.

Impairment

As mentioned above estimates are required periodically to assess assets for impairment. These estimates will incorporate the expected future commodity prices, estimates of the ore reserves and projected future costs of development and production.

Mineral Reserves and Resources

The major value associated with the Group is the value of its mineral resources. These resources are the Group's best estimate of product that can be economically and legally extracted from the relevant mining property. The Group's estimates are supported by geological studies and drilling samples to determine the quantity and grade of each deposit.

Significant judgement is required to generate an estimate based on the geological data available. Ore resource estimates may vary from period to period.

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

5. Segmental Information

The adoption of IFRS 8 resulted in the change in the reportable segments. Previously segments were reported on a geographical basis (by country). Management has determined the operating segments based on the reports reviewed by the Board and decided that it would be more appropriate to identify reportable segments on a project by project basis.

As at 31 December 2009, the Group consisted of the following 6 main business segments:

- Kounrad – copper production and development in Kazakhstan;
- Tochtar – gold production and development in Kazakhstan;
- Kenes – gold exploration in Kazakhstan; and
- Handgait - molybdenum exploration in Mongolia; and
- Alag Bayan – copper and gold exploration in Mongolia.
- Ereen – gold exploration in Mongolia.

All projects represent separate geographical areas and have separate independent revenue streams from sales of different metals or independent expenses structure related to exploration or development. UK head office does not represent a separate segment however is being reported separately as management considers the UK operations at a strategic level.

Two projects, namely Tochtar and Ereen, at 31 December 2009 have been classified as held for sale. Note 18 gives more details in relation to these projects.

Kenes was sold during 2009 to a minority shareholder (see note 22).

The Group operates out of three key geographical areas, being Kazakhstan, Mongolia and the UK, even though they are managed on a worldwide basis.

The Board assesses the performance of the operating segments based on a number of operational and financial measures relevant to the stage of development of the project:

Exploration and Evaluation

The main indicators used for these projects relate to the numbers of holes drilled and the depth achieved together with the associated assay results and their impact on the assessment of potential reserves and resources. Financial performance is based on the estimated costs per metre for the drilling and the associated site overheads and any required infrastructure expenditure.

Development and Production

Once a project reaches this stage of maturity, the emphasis for assessing the performance of the projects switches to the measurement of product output and the associated revenues, operating costs or the monitoring of the estimated capital costs to develop the project.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

The segment information provided to the Board for the reportable segments for the year ended 31 December 2009 is as follows:

Group	Kounrad	Tochtar	Kenes	Handgait	Alag Bayan	Ereen	UK	Unallocated	Group Total
2009	\$	\$	\$	\$	\$	\$	\$	\$	\$
Segment revenue	425,629	748,056	11,083	-	-	-	63,119	-	1,247,887
Revenues from transactions with other operating segments of the same entity	(23,969)	(10,706)	(11,083)	-	-	-	(61,150)	-	(106,908)
Revenue from external customers	401,660	737,350	-	-	-	-	1,969	-	1,140,979
Interest revenue	11,239	-	65	215	456	237	12,032	49	24,293
Interest expense	-	(414,804)	-	-	-	-	-	-	(414,804)
Gain on Loan re-negotiation	-	1,089,062	-	-	-	-	-	-	1,089,062
Depreciation and amortisation	(288,198)	(211,549)	(4,221)	(75,606)	(7,440)	(38,826)	(41,024)	(3,039)	(669,902)
Exchange gain(loss)	(4,494,369)	(152,363)	-	(860,175)	(40,215)	(428,792)	(192,949)	(38,321)	(6,207,184)
Share based payments	-	-	-	-	-	-	(824,277)	-	(824,277)
Total assets	5,056,589	221	-	5,622,886	3,017,907	3,697,980	2,782,336	46,972	20,224,891
Including: Additions to non-current assets (other than financial instruments and deferred tax assets)	778,746	8,071	-	386,445	2,790,707	935,881	5,731	-	4,905,581
Total Liabilities	533,559	518,657	-	430,853	376,175	225,152	1,799,841	96,249	3,980,486

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

The segment information provided to the Board for the reportable segments for the year ended 31 December 2008 is as follows:

Group	Kounrad	Tochtar	Kenes	Handgait	Alag Bayan	Ereen	UK	Unallocated	Group Total
2008	\$	\$	\$	\$	\$	\$	\$	\$	\$
Segment revenue	759,123	2,538,264	-	-	-	-	71,958	-	3,369,345
Revenues from transactions with other operating segments of the same entity	(544,371)	(30,984)	-	-	-	-	(71,958)	-	(647,313)
Revenue from external customers	214,752	2,507,280	-	-	-	-	-	-	2,722,032
Interest revenue	41,555	-	-	1,338	1,156	1,318	263,704	76	309,147
Interest expense	-	(74,143)	-	-	-	-	-	-	(74,143)
Depreciation and amortisation	(186,149)	(256,452)	(3,190)	(45,005)	(1,860)	(22,988)	(37,060)	(1,929)	(554,633)
Exchange gain/(loss)	(114,423)	(2,811)	(46)	(668,078)	(12,137)	(329,294)	(21,589)	(34,318)	(1,182,696)
Share based payments	-	-	-	-	-	-	(672,000)	-	(672,000)
Total assets	6,535,867	2,518,132	1,572,366	6,731,485	281,455	3,380,792	6,024,439	21,935	27,066,471
Including:									
Additions to non-current assets (other than financial instruments and deferred tax assets)	3,582,407	512,181	1,119,762	4,509,350	201,231	2,625,933	1,059,687	2,061	13,612,612
Total Liabilities	111,482	3,020,635	69,485	532,679	119,875	342,547	682,498	46,263	4,925,464

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 – continued

6. Property, Plant and Equipment

Group	Mining Property	Plant and Equipment	Motor Vehicles & Office Equipment	Total
	\$	\$	\$	\$
At 1 January 2008	587,237	644,880	526,282	1,758,399
Additions	658,413	1,505,817	1,310,889	3,475,119
Disposals	(53,535)	(50,045)	(166,773)	(270,353)
Translation difference	(6,537)	(1,386)	(20,056)	(27,979)
At 31 December 2008	1,185,578	2,099,266	1,650,342	4,935,186
Additions	236,422	63,994	60,690	361,106
Disposals	(1,422)	(34,546)	(283,672)	(319,640)
Assets held for sale (note 18)	(674,600)	(522,921)	(222,553)	(1,420,074)
Translation difference	(199,595)	(388,070)	(261,195)	(848,860)
At 31 December 2009	546,383	1,217,723	943,612	2,707,718
Depreciation				
At 1 January 2008	78,490	107,947	58,224	244,661
Provided during the year	109,728	212,982	225,927	548,637
Disposals	-	-	(389)	(389)
Translation difference	(250)	(232)	(902)	(1,384)
At 31 December 2008	187,968	320,697	282,860	791,525
Provided during the year	118,624	251,922	253,672	624,218
Disposals	(318)	(686)	(38,499)	(39,503)
Assets held for sale (note 18)	(222,522)	(296,322)	(102,856)	(621,700)
Translation difference	(33,730)	(60,396)	(41,736)	(135,862)
At 31 December 2009	50,022	215,215	353,441	618,678
NBV at 31 December 2009	496,361	1,002,508	590,171	2,089,040
NBV at 31 December 2008	997,610	1,778,569	1,367,482	4,143,661

The Group has no finance leases.

Depreciation is charged to general and administrative costs \$218,516 (2008: \$81,242), cost of goods sold \$195,575 (2008: \$363,344), capitalised in exploration and evaluation asset \$122,988 (2008: \$72,390) and work in progress \$87,139 (2008: \$31,661).

The Company had \$23,893 of office equipment at Net Book value as at 31 December 2009 (2008: \$82,359).

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

7. Intangible Assets

Group	Deferred Exploration and Evaluation costs	Mining Licences and Permits	Software	Total
	\$	\$	\$	\$
At 1 January 2008	2,577,110	1,348,884	80,764	4,006,758
Additions	8,852,928	1,282,152	2,413	10,137,493
Acquisition of subsidiary	-	1,000,000	-	1,000,000
Disposals	(87,472)	-	(238)	(87,710)
Translation Difference	(139,199)	(1,599)	(35)	(140,833)
At 31 December 2008	11,203,367	3,629,437	82,904	14,915,708
Additions	4,279,610	264,707	158	4,544,475
Disposals	(1,202,141)	(154,301)	(875)	(1,357,317)
Assets held for sale (note 18)	(3,872,896)	(751,663)	(1,027)	(4,625,586)
Translation Difference	(1,454,794)	(422,161)	(3,821)	(1,880,776)
At 31 December 2009	8,953,146	2,566,019	77,339	11,596,504
Amortisation				
At 1 January 2008	-	1,728	3,698	5,426
Provided during the year	-	3,469	2,527	5,996
At 31 December 2008	-	5,197	6,225	11,422
Provided during the year	-	2,988	42,696	45,684
Assets held for sale (note 18)	-	(2,771)	(517)	(3,288)
At 31 December 2009	-	5,414	48,404	53,818
NBV at 31 December 2009	8,953,146	2,560,605	28,935	11,542,686
NBV at 31 December 2008	11,203,367	3,624,240	76,679	14,904,286

Amortisation of mining licences and permits is charged to the appropriate project. Amortisation of software is all charged to general and administrative costs.

In August 2008, the Group paid \$7,000 for 70% of the share capital of Bayan Resources based in Mongolia. The Group paid \$1,000,000 for licences and permits associated with the exploration rights owned by this company.

During the year Tarbagatai licence with NBV of £233,234 (2008: nil) was written off resulting in loss of \$233,234 (2008: Nil). Also during the year all assets related to Tochtar were written off. Note 18 provides more details.

The Company had \$1,175,636 of intangible assets as at 31 December 2009 (2008: \$1,302,000).

An impairment review of Handgait was undertaken by CAML management. Based on an estimated resources of 42,000 tonnes of Molybdenum, a resource multiple of just 0.5% and an estimated Molybdenum price of c \$16.50 per lb it was determined that no writedown was required.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Interests in Joint Ventures

The Group has a contractual arrangement with Sary Arka, a Government entity in Kazakhstan, whereby agreement has been reached to jointly operate and manage the Kounrad Copper facility near Balkhash. The arrangement provides joint control over the project assets. The initial capital to build the processing plant and infrastructure required to produce the copper from the existing dumps will be provided by the Group.

The agreement provides that all assets and liabilities will be the responsibility of CAML Group until such time as the project achieves breakeven. At such time, the capital to finance the project will be repaid to the Group out of 50% of the annual net operating cash flows with the balance being paid to the parties in a 60:40 split as dividends. Once all capital is repaid to the Group, net operating cash flows will all be paid as dividends to the Joint Venture parties on the agreed basis of 60:40. As at 31 December 2009, the project was still in the early phases of development although both parties to the agreement had agreed that breakeven had been reached. It was agreed that this had been achieved on 01 October 2008 following successful production from the Pilot Plant.

It was agreed that the project would be operated by two separate companies, one for the leaching operations and one for the production of copper by means of an SX-EW Production Plant. A separate company was established, Kounrad Copper Company, to achieve the latter goal and it is owned on a 60:40 basis with Sary Arka.

CAML continues to develop and finance the project through its wholly owned subsidiary, Kounrad Mining Company. The achievement of the breakeven milestone in the project resulted in only 60% of the assets being consolidated with the other 40% now being deemed as assets belonging to the Joint Venture party, Sary Arka. The agreement provides for the reimbursement of all initial development expenditure to CAML by means of future operating cashflows once commercial production commences as mentioned above.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

8. Investments

Company	2009	2008
	\$	\$
Shares in Group undertakings		
Beginning of Year	405,853	340,882
Additions in Year	-	64,971
Transferred to disposal group classified as held for sale (Note 18)	(110,000)	-
End of Year	295,853	405,853

Investments in Group undertakings are recorded at cost which is the fair value of the consideration paid. Details of group holdings are included in the table below.

Subsidiary	Country	Activity	CAML % 2009	CAML % 2008	Date of Incorporation
CAML1	UK	Holding Company			09 September 2005
CAML Kazakhstan BV	Holland	Holding Company	100	100	23 June 2008
CAML Mongolia BV	Holland	Holding Company	100	100	23 June 2008
Sary Kazna LLP2	Kazakhstan	Management Services & Copper Production	100	100	06 February 2006
Tochtar LLP	Kazakhstan	Gold Mining	75	75	27 April 2006
Kenes LLP	Kazakhstan	Exploration – Gold	-	70	27 April 2007
New CAML Ltd	Mongolia	Management Services	100	100	08 June 2007
Zuun Mod UUL Ltd (Ereen)	Mongolia	Exploration – Gold	85	85	03 May 2007
Mon Resources Ltd (Handgait)	Mongolia	Exploration – Molybdenum	80	80	18 May 2007
Mongolian Silver Mountain Ltd	Mongolia	Exploration – Silver	100	100	01 April 2007
Bayan Resources	Mongolia	Exploration – Copper / Gold	70	70	01 August 2008
Central Asia Gold Inc	USA	Management Services	100	100	01 September 2005

1 CAML operates a branch office in Kazakhstan which provides management services

2 Sary Kazna also has a branch office involved in the copper production at Kounrad

During 2009 the Company made no acquisitions.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

9. Trade and Other Receivables

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	2009	2008
	\$	\$	\$	\$
Trade and Other Receivables	457,253	798,537	362,486	264,223
Receivables from related parties	603,488	1,741,713	33,663,353	34,031,823
Prepayments	285,043	373,448	25,794	-
	1,345,784	2,913,698	34,051,633	34,296,046
Less non - current portion				
Trade and Other Receivables	-	(3,956)	-	-
Receivables from related parties	(603,488)	(1,741,713)	(33,663,353)	(34,031,823)
Prepayments	-	-	-	-
Current Portion	742,296	1,168,029	388,280	264,223

The carrying value of all the above receivables is a reasonable approximation of fair value.

All trade receivables are with counterparties that management considers to be of high credit rating quarterly in that they are either government agencies or related parties with whom the Group has a strong business association.

All non - current receivables are due within 5 years of the balance sheet date.

Management's policy is to assess all trade receivables and receivables from related parties semi - annually and a provision is made where an elimination of doubt exists. Amounts are fully written off when information comes to light that the amounts due will not be recovered. There was no impairment provision created at 31 December 2009 (2008: Nil), although the following amounts were written off.

- During the year \$59,100 (2008: \$1,210,899) was written off relating to outstanding VAT owed by the Kazakhstan and Mongolian Governments. VAT written off in 2008 had been due for repayment during 2009 but subsequent negotiations and discussions with the Kazakhstan Government led to the conclusion that such monies would not easily be recovered.
- During the year the loan to Kenes was written off by the Company which amounted to \$1,211,409 (2008: nil). This loan was written off as the project was sold over to the minority shareholders for a nominal amount due to the contractual work commitments not being considered worthwhile by CAML management for the value that could be created in the project.
- During the course of 2009, Sary Kazna was in discussions with its partner on the Kounrad project, Sary Arka, regarding the achievement of the breakeven point as stipulated in the Joint Operating Agreement (JOA). Due to the uncertainty regarding the recoverability of the funds advanced prior to the breakeven point (140m KZT) and the concern that these funds might be the subject of some negotiation between the parties, CAML management decided to write off the recoverable amount.
- In May 2010, Sary Kazna reached an amicable agreement with its partner on the Kounrad project, whereby it agreed to write off the recoverable amount of 140m KZT (\$943,015) in exchange for no future advance payments to Sary Arka stipulated by the Joint Operating Agreement.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

Company

Company receivables from related parties are non – current and are as follows;

Receivables from related parties	2009	2008
Kazakhstan Subsidiaries	17,515,692	22,744,534
Mongolian Subsidiaries	15,988,261	11,274,033
Dutch Subsidiaries	159,400	13,256
Total	33,663,353	34,031,823

- During 2008 the value of the loan recoverable from Tochtar LLP was written down from \$8,961,356 as at 31 December 2008 to \$7,000,000 based on market interest in this property. A write down of \$1,961,356 was recorded to reflect estimated net realisable value.
- Whilst the company remains in due diligence proceedings with the potential purchasers of Tochtar LLP, CAML management are concerned that the asset is taking a considerable amount of time to sell. Despite significant efforts to complete the transaction in a timely manner, the potential purchasers have prevaricated and provided no coherent reasons regarding the delay in completion.
- Furthermore, as the time to complete the agreement extends, there is concern that various work commitments associated with the licence will soon become pressing, thereby leading to a potential loss of the licence. Consequently, CAML management are of the belief that the asset should now be written down to a nil value subsequent to year end.
- An amount of \$8,709,249 has been written off at 31 December 2009 based on management's decision.

10. Inventory

Group	2009	2008
	\$	\$
Raw Materials	82,039	148,164
Work in Progress	-	149,009
Finished Goods	193,947	178,093
	275,986	475,266

The cost of inventory is recognised as an expense and included in

- Cost of goods sold line in Income statement amounted to \$922,073 (2008: \$3,875,032);
- General and administration expenses line in Income statement amounted to \$19,145 (2008: \$39,440).

In 2009 the reversal of inventory written down in Tochtar in 2008 amounted to \$799,110 (2008: nil).

There was a write down of inventory in the amount of \$894,166 in 2009 (2008: \$1,240,137) in Tochtar.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

11. Cash and Cash Equivalents

The majority of the Group's cash and cash equivalents at the year end (88.7%: 2009 and 94.2%: 2008) are held a triple A rated bank.

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash at bank and on hand	558,555	773,207	427,994	519,504
Short term deposits	766,533	3,856,353	766,533	3,856,353
	1,325,088	4,629,560	1,194,527	4,375,857
Cash at bank and on hand included in the assets held for disposal line (note 18)	5,388	-	-	-
Total Cash	1,330,476	4,629,560	1,194,527	4,375,857

12. Share Capital and Premium

Group / Company	Number of Shares No	Ordinary shares \$	Share premium \$	Treasury Shares \$	Total \$
At 1 January 2008	28,052,000	280,520	41,131,593	-	41,412,113
Proceeds from shares issued	857,339	8,573	3,816,457	-	3,825,030
Loan Converted into Equity	311,527	3,115	1,996,885	-	2,000,000
At 31 December 2008	29,220,866	292,208	46,944,935	-	47,237,143
Proceeds from shares issued	7,190,601	71,906	4,817,704	-	4,889,610
EBT Shares issued	2,534,688	25,347	1,698,241	(1,723,416)	172
At 31 December 2009	38,946,155	389,461	53,460,880	(1,723,416)	52,126,925

The total authorised number of ordinary shares is 100 million shares (2008: 100m shares) with a par value of \$0.01 per share (2008: \$0.01). All issued shares are fully paid.

On 24 July 2009, the Company issued 7,190,601 ordinary shares in a private placing at the share price of \$0.68 raising a total of \$4,889,610.

On 22 December 2009, the Company issued 2,534,688 ordinary shares as part of the Employee Benefit Trust, details of which are contained in note 13. The shares were issued to the Trust in line with the Joint Ownership Agreements and as at 31 December 2009 the amount owed by the employees for their part of contribution of \$172.36 was reflected as a debtor. This amount was paid into the Company's bank account in early January 2010.

Central Asia Metals Limited

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 - continued

13. Other Reserves

Group	Share Option Reserve	Currency Translation \$	Total Group \$
At 1 January 2008	-	(153,616)	(153,616)
Currency translation differences	-	310,845	310,845
Grant of share options	672,000	-	672,000
At 31 December 2008	672,000	157,229	829,229
Currency translation differences		3,391,045	3,391,045
Grant of share options	805,677	-	805,677
EBT shares granted	18,600	-	18,600
At 31 December 2009	1,496,277	3,548,274	5,044,551

The amount of \$805,677 (2008: \$672,000) credited to the share option reserve relates to the shares options granted in February 2008 – see note 14.

14. Equity Settled Share Based Payments

(a) Share Option Plan

511,000 Share options were granted to 10 employees under the CAML Share Option Plan on 21 February 2008. The exercise price for these options is \$6.42 and they are exercisable in 3 years of the date of grant. The only applicable vesting conditions are time based and consequently the share options are fully vested in February 2011.

As at 31 December 2009 and at 31 December 2008, 511,000 options to subscribe for Ordinary shares of \$6.42 each in the Company were outstanding as follows:

Date of Grant of Option	Expiry Date of Option	Option Exercise Price,\$	Number of Shares
21 February 2008	21 February 2018	6.42	511,000

No new share options were granted in 2009. There was no options forfeited, exercised or expired in 2009 (2008: nil, nil, nil, respectively). The weighted average number of options exercisable at 31 December 2009 is nil (2008: Nil).

The estimated fair value of the share options granted on 21 February 2008 is \$4.74, for a total of \$2,422,140. This was calculated by using an options valuation model based on the Black-Scholes method. The model inputs were the share price at grant date of \$6.42 together with an exercise price of \$6.42, an expected volatility of 128% and an estimated risk-free interest rate of 3%. The volatility of 128% represents the volatility of a listed company which operate in the same sector as this company.

The amount of \$805,677 (2008: \$672,000) credited to the share option reserve relates to the shares options granted in February 2008.

Central Asia Metals Limited

Notes the Consolidated Financial Statements for the year ended 31 December 2009 - continued

(b) Employee Benefit Trust

An Employee Benefit Trust (EBT) was set up by the Company during 2009 as a means of incentivising the management of CAML towards achieving specific goals as agreed by the Remuneration Committee. A total of 2,534,688 ordinary shares were issued on 22 December 2009 as part of the arrangement following on from a lengthy set up and agreement process within the Company.

The shares were issued at the exercise price of \$0.68 which was based on the valuation taken from the July 2009 fund raising at around the time the EBT scheme was considered appropriate as an incentive scheme by the Board. The shares are jointly owned by the Trust Fund and the employee with the ownership transferring to the employee based on certain performance criteria. The performance criteria is related to the Company achieving a trade sale or an IPO.

\$18,600 was recognised for the year (2008: \$Nil) from the Employee Benefit Trust. The estimated fair value of the shares granted on 22 December 2009 is \$0.31, for a total of \$790,414. This was calculated by using an options valuation model based on the Black-Scholes model. The model inputs were the share price at grant date of \$0.68 together with an exercise price of \$0.68, an expected volatility of 130% and an estimated risk-free interest rate of 5%. The volatility of 130% represents the volatility of a listed company which operate in the same sector as this company.

15. Trade and Other Payables

	Group		Company	
	As at 31 December		As at 31 December	
	\$	\$	\$	\$
	2009	2008	2009	2008
Trade Payables	1,320,288	1,539,972	649,919	736,446
Amounts due to related parties	-	-	32,160	30,065
Social Security and other taxes	140,316	503,804	117,762	16,257
	1,460,604	2,043,776	799,841	782,768
Less non - current portion				
Social Security and other taxes	-	(19,522)	-	-
Amounts due to related parties	-	-	(32,160)	(30,065)
Current portion	1,460,604	2,024,254	767,681	752,703

The carrying value of all the above payables is equivalent to fair value.

All the above trade and other payables are payable within 30 days.

The amounts due to related parties are a consequence of inter-group arrangements.

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Notes the Consolidated Financial Statements for the year ended 31 December 2009 – continued

16. Borrowings

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	2009	2008
	\$	\$	\$	\$
Gold loan ¹	1,000,000	1,650,425	1,000,000	-
	1,000,000	1,650,425	1,000,000	-

Note 1

The gold loan relates to the receipt of funds by Tochtar LLP from Commonwealth American Partners LLP (CAP) in 2006 which were advanced in consideration for repayment from future gold production. A total of \$1,798,750 was advanced to Tochtar LLP during 2006 in exchange for the future delivery of the first 3,600 ounces of gold produced from the mine. The gold was initially due for delivery by 29 December 2006 although this was later extended to 31 December 2007 because of production delays.

The gold loan was valued at the time of the advancement of funds by reference to the closing quoted market price of gold for forward deliveries which matched the contractual delivery dates. Funds were advanced on three separate occasions during 2006 for the total consideration of \$1,798,750. The gold loan was designated at fair value through the income statement at the inception of each of the loans. The differences between the consideration received and the fair value of the loans at inception were debited to Group reserves.

All movements in the fair value of the gold loan were treated as finance income or cost through the income statement during the life of the loan. During 2009 no deliveries of gold were made to CAP due to the mine being placed on care and maintenance for the vast majority of the year.

Management agreed with CAP in September 2009 that the liability would be settled for a monetary amount of \$1m by CAML and that this liability would in turn be settled by conversion to equity once the appropriate authority to allot shares had been obtained by the Directors. The agreed price per share of \$0.68 was based on the July fund raising.

In November 2009, this agreement was actioned. The agreement to settle the loan at \$1m resulted in recognition of gain on loan re-negotiation of \$1,089,062 (2008: \$Nil).

In February 2010 the loan was converted into 1,470,588 shares.

Central Asia Metals Limited

Notes the Consolidated Financial Statements for the year ended 31 December 2009 – continued

17. Provisions for Liabilities and Charges

Group	Environmental Restoration	Other	Total
	\$	\$	\$
At 1 January 2008	590,939	6,951	597,890
Arising during the year			
Asset Retirement Obligations	640,324	-	640,324
Used during the year	-	(6,951)	(6,951)
At 31 December 2008	1,231,263	-	1,231,263
Arising during the year			
Asset Retirement Obligations	(61,578)	-	(61,578)
Transferred to disposal group classified as held for sale	(728,428)	-	(728,428)
Used during the year	-	-	-
At 31 December 2009	441,257	-	441,257

The environmental provision of \$441,257 (2008: \$1,231,263) is a non current provision. The provision is expected to be utilised on closure and rehabilitation stage.

Central Asia Metals Limited

Notes the Consolidated Financial Statements for the year ended 31 December 2009 - continued

18. Assets held for sale

The assets and liabilities related to the following companies have been presented as held for sale:

Tochtar

As described in the Director's Report, this mine is located in northwest Kazakhstan near the Russian border and CAML acquired an initial 65% stake in 2006. This was then increased to 75% in January 2007. The mine was managed and operated from that time during 2007 and 2008 producing a total of c 5,000 ounces of gold.

In November 2009, a framework agreement to sell 100% of the property to a Chinese Group was concluded. CAML management were able to agree with the minority shareholders an amount that they were prepared to sell their 25% stake for in order to be able to meet the terms of the framework agreement.

A two month due diligence period whereby the potential purchasers enjoyed an exclusivity period expired early in 2010 although the transaction has still not been concluded. Whilst there are potentially a number of other interested parties, it was decided by the CAML Board to write off all of the assets associated with Tochtar project to nil.

This decision was taken due to the concern, that whilst a successful sale may still be achieved in 2010, the licence commitments would also soon become an issue and the CAML Board did not feel that it was willing to incur additional expenditure on such commitments if a sale had not been concluded by that time. Management continue to try and achieve a sale in 2010.

The assets written off were as follows:

	2009
Intangible assets	878,409
Property plant and equipment	670,312
Inventory, including a reversal of 2008 write down in the amount of \$799,110 and current year write off in the amount of \$894,166 (note 10)	95,056
Trade and other receivables	5,362
Total	1,649,139

Ereen

This gold exploration project is located between Centerra's Boroo mine and the Gatsurst project in the Selenge province approximately 140 km north of Ulaan Baatar, Mongolia. At the end of 2008, the Group had completed a drilling programme of 44 holes (9,881m) and a total of 6,709 assays had been sampled since acquiring the licence.

During 2009 a drilling programme was conducted on the site in order to obtain further geological data and thereby enable the conversion of the exploration licences associated with the project to be converted into 30 year mining licences. This was successfully achieved in April 2010. A total of 1,792m was drilled in May 2009.

Following on from the Strategic review of the Group by the new management, a decision was taken to actively sell the mine during 2009. A number of parties expressed interest during the latter part of 2009, although as at the year end no sale had been achieved.

In March 2010, an offer was accepted on the project and the purchaser is currently completing their due diligence. The CAML management hope to complete this disposal within 2010.

Central Asia Metals Limited

Notes the Consolidated Financial Statements for the year ended 31 December 2009 - continued

(a) Assets of disposal group classified as held for sale

	2009	2008
Intangible assets	3,509,957	-
Property plant and equipment	128,062	-
Cash and cash equivalents	5,388	-
Trade and other receivables	2,900	-
Total	3,646,307	-

Investment carried directly in the Company's accounts relating to Ereen project at 31 December 2009 is \$110,000.

(b) Liabilities of disposal group classified as held for sale

	2009	2008
Provisions	728,428	-
Trade and other payables	350,197	-
Total	1,078,625	-

19. Income Tax

Income tax expense comprises the following;

	2009	2008
Corporate Income Tax – current year	-	-
Corporate Income Tax – prior periods	-	-
Deferred tax (expense) / recovery – current year	-	-
Income tax (expense) / recovery	-	-

Due to the losses incurred in the business there is no current tax provided. Domestic income tax is calculated at 28 % (2008: 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation between the expected and the actual taxation charge is provided below;

	2009	2008
Loss before tax	(15,001,706)	(13,752,009)
Tax at the domestic income tax rate 28% (2008: 28.5%)	(4,202,796)	(3,917,355)
Different tax rates for overseas jurisdictions	610,646	257,654
Expenses not deductible for tax purposes	2,462,730	2,465,872
Unrecognised deferred tax asset	1,129,420	1,193,829
Tax expense and effective tax rate for the year	-	-

Central Asia Metals Limited

Notes the Consolidated Financial Statements for the year ended 31 December 2009 – continued

The CAML Group has net unrecognised deferred tax assets in respect of deductible temporary differences of \$898,623 for the year ended 31 December 2009 (2008: \$1,122,234) and an unrecognised deferred tax asset relating to ongoing losses of \$4,156,412 (2008 : \$3,257,789). It is probable that future taxable profit will not be available to utilise the benefits of these temporary differences.

20. Expenses by nature

Group	2009	2008
	\$	\$
Employee benefit expense	2,326,449	3,509,225
Share based payments (note 14)	824,277	672,000
Inventory	556,262	1,272,737
Depreciation and amortisation (note 6 and 7)	546,914	266,432
Accounting and audit	338,798	509,391
Consulting	263,693	111,261
Travel	248,068	444,042
Office rent	201,191	299,254
Legal costs	165,321	433,131
Employee accommodation	162,142	393,397
Telecommunications	158,724	180,665
Extraction costs	137,615	1,836,730
Taxes (Including royalty)	56,700	488,581
Office costs	42,785	69,695
Marketing	1,676	80,725
Exploration costs	-	1,329,636
Other expenses	412,500	1,178,411
Total cost of sales and general and admin expenses	6,443,115	13,075,313
Write off – assets related to Tochtar project, excluding inventory (note 18)	1,554,083	-
Write off - loan to Kenes (note 9 and 22)	1,211,409	-
Write off – Loan to Sary Arka (note 9)	943,015	-
Write off- Tarbagatai licence (note 7)	233,234	-
VAT write off	59,100	1,210,899
Total Write off	4,000,841	1,210,899
Total cost of sales and other general and admin expenses incl Write off	10,443,956	14,286,212

21. Exchange rate differences

Group	2009	2008
	\$	\$
Foreign exchange rate differences	(6,207,184)	(1,182,696)

The losses on foreign exchange relate to the translation to the United States dollar of assets and liabilities at the balance sheet date.

Central Asia Metals Limited

Notes the Consolidated Financial Statements for the year ended 31 December 2009 – continued

22. Other expenses

Group	2009	2008
	\$	\$
Loss on sale of subsidiary	(95,040)	-

On 15 December 2009, CAML management decided to sell the Kenes property to the minority shareholder for the nominal value of the share capital, 50,750 Kazakhstan Tenge (KZT). It was felt that the contractual commitments were too onerous for the CAML Group at this stage in its development and that the limited financial and human resources within the Group could be better utilised elsewhere.

The corresponding loss on the investment over the period of the Group's ownership was written off in full and amounted to \$95,040.

After loss of control over Kenes, the Group assessed the recoverability of the loan previously granted to Kenes. This loan was written off by the Company and the Group and amounted to \$1,211,409 (2008: nil).

23. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares (note 12).

	2009	2008
	\$	\$
Loss attributable to equity holders of the company	(15,001,706)	(13,752,009)
Weighted average number of ordinary shares in issue	32,970,616	28,621,190

Diluted earnings per share

Diluted earnings per share has not been calculated as the effect of all the instruments in issue is antidilutive.

Central Asia Metals Limited

Notes the Consolidated Financial Statements for the year ended 31 December 2009 – continued

24. Employee Benefit Expense

The aggregate remuneration of staff, including the costs of all Directors, was as follows:

Group	2009	2008
	\$	\$
Wages and salaries	2,297,496	3,934,550
Social security costs	250,075	380,141
Pension related costs (State related overseas)	116,584	279,208
	2,664,155	4,593,899
Company		
Wages and salaries	702,496	1,414,042
Social security costs	78,792	100,291
Pension related costs	-	-
	781,288	1,514,333

25. Average Number of People Employed

Group	2009	2008
	Number	Number
Operational	84	180
Management and Technical	27	91
	111	271

Company

The average number of staff employed by the Company during the year was 5 in 2009 and 14 in 2008. This includes the staff employed within the CAML Branch based in Almaty, Kazakhstan.

Central Asia Metals Limited

Notes the Consolidated Financial Statements for the year ended 31 December 2009 - continued

26. Directors' Remuneration

Director's remuneration, including Non-Executive Directors, during the year was as follows;

Group	2009	2008
	\$	\$
Directors' emoluments	513,343	681,550

The emoluments of the highest paid director totalled \$175,939 in 2009 (2008: \$353,652).

Details of the Director's interests in the ordinary shares of the Company are set out in the Directors' Report on pages 7 & 8.

27. Auditors' Remuneration

The Group paid \$160,000 (2008: \$180,000) to its auditors for the audit of the financial statements for the year ended 31 December 2009. This amount includes \$85,000 (2008: \$113,000) for the audit of its overseas subsidiaries and \$75,000 (2008: \$67,000) for the audit of the UK Holding company, CAML.

The Group paid \$32,000 in relation to non - audit fees (2008:\$120,000) which primarily related to tax advice and specific advice relating to a Corporate reorganisation.

28. Finance Income and Costs

Group	2009	2008
	\$	\$
Finance Income	24,293	309,147
Finance Cost associated with gold loan	(411,550)	(66,501)
Other Finance Costs	(3,254)	(7,642)
Total Finance costs	(414,804)	(74,143)
Net Finance (costs)/income	(390,511)	235,004

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Notes to the Consolidated Financial Statements for the year ended 31 December 2009 – continued

29. Cash Generated from Operations

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	2009	2008
	\$	\$	\$	\$
Losses before income tax	(15,001,706)	(13,752,009)	(10,341,705)	(4,376,790)
Adjustments for :				
Depreciation (note 6)	414,091	546,861	-	33,726
Amortisation (note 7)	45,684	5,996	40,559	-
Foreign Exchange (note 21)	6,207,184	310,846	-	-
Inventory in Tochtar - reversal of previous year write down and write down for current year (Note 10)	95,056	1,240,137	-	-
Write off assets related to Tochtar project ,excluding inventory write back and write down) (note 18)	1,554,083	-	8,709,249	-
Loss on sale of subsidiary (note 22)	95,040	-	-	-
Loan to Kenes written off (note 9)	1,211,409	-	1,211,409	-
Loan to Sary Arka written off (note 9)	943,015	-	-	-
Write off of Intangible Assets (note 7)	233,932	-	150,000	-
Loss on sale of Property, Plant and Equipment	1,072	-	-	-
Write off Property, Plant and Equipment	23,882	-	-	-
Share Options (note 14)	824,277	672,000	824,277	672,000
Gain on Gold Loan re-negotiation (note 16)	(1,089,062)	-	-	-
Finance income (note 28)	(24,293)	(309,147)	(12,031)	(263,704)
Finance Costs (note 28)	414,804	7,642	36	-
Changes in working capital :				
Inventories	104,224	(300,788)	-	-
Trade and Other Receivables	616,637	284,315	(124,056)	23,550
Trade and Other Payables	(232,976)	1,178,577	14,978	178,423
Movement in Provisions	(61,577)	633,373	-	-
Movement in Gold loan liability	-	(931,029)	1,000,000	-
Minority Interests	-	(140,549)	-	-
Cash generated from operations	(3,625,224)	(10,553,775)	1,472,716	(3,732,795)

Notes to the Consolidated Financial Statements for the year ended 31 December 2009 – continued

30. Contingencies

As at 31 December 2009 the Group had no contingent liabilities or assets (2008: Nil).

Kazakhstani tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and frequent changes which may be applied retroactively. The interpretation of tax, transfer pricing and excess profit tax legislation by the Kazakhstani tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group may be assessed additional taxes, penalties and fines. Tax periods remain open to review by the Kazakhstani tax authorities for five years.

31. Commitments

At 31 December 2009 amounts contracted for but not provided in the financial statements amounted to \$Nil for the Group (2008: Nil).

32. Related Party Transactions

During 2006 funds were advanced to one of the Group's subsidiaries, Tochtar LLP, to assist in the set up of the business. Repayment of the funds advanced was to be repaid by the future delivery of gold upon commencement of production. Details of the transaction are given in note 16.

The funds were advanced by Commonwealth Partners LP which is considered to be a related party by virtue of the size of its shareholding in the Group, details of which are contained in the Directors' Report.

In November 2009, it was agreed that the loan would be converted into a monetary amount of \$1m and that this amount would subsequently be settled in equity at the share price of \$0.68 when the Director's had acquired the authority to issue the shares. The loan was converted into shares in February 2010.

33. Post Balance Sheet Events

Convertible loan notes

In April 2010 the Company raised a total of \$5.4m gross by issuing convertible loan notes which are expected to convert into ordinary shares at the IPO. The loan notes carry a 30% discount to the IPO price provided the Company manages to complete the IPO before 30 September 2010 and 40% thereafter up until the maturity of the loan notes one year after issuance. If converted on maturity date a 48% discount would apply.