



## INTERIM REPORT DATED NOVEMBER 26, 2010

### Central Asia Gold AB (publ)

#### Interim report for the nine-month period January – September 2010

- The amount of gold produced in January – September 2010 was 529 kg (480 kg). Gold production as of November 25:th amounts to about 750 kg.
- Consolidated revenues for January – September 2010 amounted to MSEK 179.5 (MSEK 311.1) comparative figures for January – September 2009, excl. goodwill dissolution, were MSEK 109.9, i.e. an improvement in 2010 of MSEK 69.6.
- For the nine months period January – September 2010, EBITDA was MSEK 24.1 (MSEK 183.9). Comparative figures for January – September 2009, excl. goodwill dissolution, were MSEK -17.4 i.e. an improvement in 2010 of MSEK 41.5.
- The net results, after tax and minority interests, for January - September 2010 were MSEK -22.7 (MSEK 154.9). Comparative figures 2009, excl. goodwill dissolution, were MSEK -46.3 i.e. an improvement in 2010 of MSEK 23.6.
- EPS was SEK -0.69 (SEK 9.09) for January-September 2010. For the calendar quarter ending in September 2010 EPS amounted to SEK -0.18 (SEK -0.68).
- From 19 July 2010 CAG has been listed at the Swedish stock exchange's NASDAQ OMX First North Premier instead of the Nordic Growth Market.
- CAG completed a fully subscribed rights issue, with preferential rights to the existing shareholders, in August 2010. CAG received proceeds amounting to 226 MSEK before transaction costs. The number of shares increased by 141 225 000, the total share capital increased by 158 MSEK. After the rights issue the total number of shares is 158 878 125, each with a quota value of 1.125 SEK, and the share capital is 179 MSEK.

#### Major events after the end of the reporting period

- A consolidation of shares 10:1 was carried out in October 2010 in order to meet the listing requirements of CAG's switch from the NGM to the NASDAQ OMX First North Premier exchange (minimum share price is 0.50 EUR per share).
- On November 15, presented Centerra Gold together with CAG its continued and expanded cooperation in a joint press release, Centerra Gold invests another 4 MUSD in prospecting at Kara Beldyr. The press release can be found on CAG's website.

## **Comments by the CEO**

It is with great satisfaction that I summarize the first nine months of 2010 and the recent activities and developments of our company. The important steps required in order to implement the strategy, as previously outlined, have now been taken.

### **Financing**

Firstly, we have completed a rights issue and CAG, as a result, has received proceeds from this issue totaling MSEK 226 before transaction costs. This represents a major turning point in the company's financial history and provides for the required level of resource to effect our strategy both in terms of existing production growth and further exploration.

This Rights issue raised the required capital allowing for:

- Purchase of machinery and equipment used in operations, thereby terminating expensive leasing agreements.
- Improvement and upgrading of our facilities. At Solcocon we have increased production capacity three times.
- Increased exploration activities at our large license areas.
- Retired outstanding debts with high interest

Furthermore, in July 2010 our Tardan project concluded a loan agreement with Svyaz Bank for the provision of a MSEK 120 credit line for the financing and adoption of the technology required for the mining and processing of ore gold via a heap leaching process (including construction, purchase of equipment and launch of the heap leaching complex). We have formed a productive relationship with the bank which has indicated that they are keen to support additional projects of the group going forward.

The plant at Tardan is estimated to have annual production capacity of 1,200 kg gold. The investment is expected to generate revenues of approximately MSEK 250 per annum and has a payback period of less than two years. Activity at the construction site is currently very high to ensure that the first gold will be produced in December 2010. . We are now ready to immediately start production just awaiting the final regulatory approval for commissioning the ore-processing at Tardan.

### **Operations**

During the first nine months of last year CAG produced 480 kg of gold. In the first nine months of 2010 production has been increased to 529 kg. Up until the time of writing, the company has produced a further 220 kg, thus c.750 kg of gold will have been produced by 25 November 2010. Production at the alluvial mining sites has largely been completed for 2010. Tardan and Solcocon plants will continue production to year end.

The company's strategic decision to move away from alluvial mining and increase ore mining is proceeding according to plan. Shorter seasons, higher levels of un-predictability and higher costs of production all contribute to an increase in the volatility of earnings and lower margins, as such it remains the company strategy to reduce alluvial's relative share of operations to approximately 25% during 2011.

At the alluvial sites, Gold Borzya managed to achieve its budgeted production level.

The Board has decided to sell Artelj Lena due to the underproduction and the high cash cost levels. Having already begun a sales process, to date the current purchaser has failed to fulfill its obligations under the terms of the transaction documentation, CAG has refused any further cooperation with this

buyer. Additional sale options will be analyzed hereafter. Artelj Tyva produced 12 kg of gold in 2010 (in October) and was sold in November 2010.

The Solcocon Heap Leaching plant was re-started. Action was taken in the first half of 2010 for the reconstruction of the factory and has resulted in a threefold increase in capacity. Drilling works and re-sampling have shown an average grade of 2.5 grams per ton of gold at the newly explored site at Podgornoe. Mining was started in mid-August and has further contributed to the company's production growth.

We are estimating that production in 2011 will increase to 2,000 kg and further expect these figures to grow to 2,500 – 3,500 kg in 2012. Our expectations are that approximately 1000 kg will be produced at Tardan, 500 kg at Solcocon and 500 kg by our alluvial producers for 2011. Our targets for production costs in 2011(excluding the 6% Russian gold extraction tax) are 550 USD/oz for Tardan, 700 USD/oz for Solcocon and 1000 USD/oz for our alluvial producers.

There remains some risk that the approval of commissioning the Tardan ore-processing will be delayed, and given the reduction in gold production resulting from the scaling down of alluvial operations, this can then effect our production for 2010. Delay in approval can cause a short fall in the Tardan production, if so this will equally increase our production in 2011.

## **Revenues**

Total revenues for the nine months of 2010 increased from MSEK 110 to MSEK 180 in comparison with last year, excluding dissolution of negative goodwill. It is with great pleasure I can tell that we have a positive operational result. Last year EBITDA was negative (MSEK-17) (excluding dissolution of negative goodwill) for the first nine months compared with a positive figure of MSEK 24 for the first nine months of 2010.

## **Exploration**

Exploration activity remains an area of important focus for the company and continued during the third quarter 2010 as planned. A total of 40,000 samples are being collected at Staroverinskaya field, the Tardan field and Uzhunzhul currently.

C1/C2 gold reserve statement preparation for the Kozlovskoe deposit has been started. Approvals are expected in Q1 2011. It is envisaged that this will add a further 9.5 tonnes of proven reserves to the company's books.

The cooperation with Canadian mining company Centerra Gold, concerning the exploration of Kara-Beldyr continues to be developed according to plans. Centerra has invested 2.5 MUSD and earned a 50% interest in Kara-Beldyr according to the joint venture agreement. Centerra has since elected, via its option agreement, to increase its interest in Kara-Beldyr to 70% by spending an additional 4 MUSD on exploration of the property over a two-year period.

CAG has, since July 19 2010, listed its shares on the Swedish stock exchange NASDAQ OMX First North Premier, this we view as a step towards the company's ultimate goal which is a listing on the NASDAQ OMX main market. This will further give us the opportunity to become part of a larger international capital market and will be an important step in our goal to grow and become a profitable and successful gold producer in Russia.

CAG has during the first nine months of 2010:

- Built a robust financial platform from which to execute the strategy;
- Reduced financing costs by retiring expensive debt and the termination of costly leasing contracts;
- Commenced construction of the plant at Tardan;
- Upgraded Solcocon to three times previous production capacity
- Successfully begun the transition away from alluvial production to ore production;
- Increased exploration activity.

Further to the achievements made during the reporting period we believe the company has now created the necessary platform required to thrive going forward and we are convinced and excited that the goals we have set for the company will be achieved.

*Preston Haskell,*  
*Chief Executive Officer*

## Background

Central Asia Gold AB (CAG AB) is a Swedish mining company with operations in Eastern Siberia, Russia. In March 2009 CAG AB completed the merger with the Russian gold mining group New Mining Company ("NMC") by way of an issue in kind.

The group structure consists of the Swedish joint stock parent company, which controls twelve subsidiaries in Russia. The Russian subsidiaries are of the limited liability type ("OOO"). The operations involve exploration and production of gold, primarily in the Tyva, Tchita and Irkutsk regions in Russia.

The group's main assets comprise a large number of mineral licenses held by the various subsidiaries. The licenses as at the end September 2010 are estimated to contain almost 760,000 troy ounces (oz) (1 oz = 31.1 g) of gold reserves according to the Russian C1+C2 categories (equaling some 24 tons).

CAG AB was publicly listed at the Swedish NGM Nordic Growth Market stock exchange on March 29, 2005 and since 19 July 2010 is listed at the Swedish stock exchange NASDAQ OMX First North Premier. The number of shareholders were 4,247 as of September 30, 2010.

Company	Alluvial / Ore	Gold reserves C1 (ton)	Gold reserves C2 (ton)	Gold reserves C1/C2 (ton)	Q1 2011 Planned Registration C1/C2 (ton)	Prognostic Resources P1/P2 (ton)	Gold production 9m 2010 (kg)	Gold production 9m 2009 (kg)	Gold production 2009 (kg)
<b>CAG units</b>									
Tardan Gold	Ore	5,7	1,9	7,6		22	133	30	102
Kara Beldyr ***	Ore / Exploration					44			
Uzhunzhul	Ore / Exploration					26			
Artel Tyva**	Alluvial	2,1		2,1			0	60	77
Artel Lena	Alluvial	2,4	1,5	3,9		2	105	226	270
<b>NMC units</b>									
GRE (Staroverinskaya license)									
Nizhnaya Borzia*	Alluvial	0,7	1,7	2,4		132	193	143	201
Bogomolovskoye*	Ore	0,7	6,9	7,6			98	21	27
Kozlovskoye*	Ore				9,5				
Solocon	asset holder								
Boreservice	drilling works								
Gold borzia	alluvial operator								
Rudtechnology	heap-leaching factory operator								
<b>Total:</b>		<b>11,6</b>	<b>12,0</b>	<b>23,6</b>	<b>9,5</b>	<b>226</b>	<b>529</b>	<b>480</b>	<b>677</b>

\*Units are part of GRE (Staroverinskaya licence)

\*\* The company is sold in November 2010

\*\*\* Joint Venture with Centerra Gold

C1 and C2 are registered gold reserves according to Russian standards. Please note that according to Russian standards C2 is classified as reserves.

Bearing in mind that the difference between western and Russian categories and no linear relationship between the Russian and western categories exists.

P1 and P2 are prognostic (forecasted) resources that are estimated on a limited exploration data. This category was used in Soviet Union (and is used in Russia) to quantify the area potential. P1 and P2 as quantitative measures do not exist in Western practice due to its high uncertainty.

## Results - the Group

On March 2, 2009 Central Asia Gold AB completed the merger with the companies forming the Russian New Mining Company Group (NMC). From the second of March 2009, NMC companies' operations are consolidated in CAG AB's financial statements using the accounting model for "reversed acquisitions". This accounting treatment requires NMC companies to be treated as the accounting acquirer and CAG AB being presented as the acquired. CAG AB continues as the legal parent. Thus, "old" CAG AB's group operations for the first two months of the first quarter 2009 are not consolidated

in the group's consolidated financial statements for the comparative information in the financial statements for 2009.

For the nine month period ended September 30, 2010 the group reports a net result after tax and minority interest of TSEK -22,738 (TSEK 154,938) which corresponds to SEK -0.69 per share (SEK 9.09). It should be emphasized that the reverse acquisition principle implies that a one-off revenue item (dissolution of negative goodwill) arose in the first quarter 2009 amounting to TSEK 201,261. Without this effect the net result would have been TSEK -46,323 for the comparative period 1 January – 30 September 2009.

Consolidated gold sales revenues were TSEK 137,362 (TSEK 88,918) during the period. During the quarter July- September 2010 consolidated gold sales amounted to TSEK 89,161 (TSEK 76,431). In total 478 kg of gold was sold during the nine month period (384 kg).

The amount of gold produced in the first nine months of 2010 was 529 kg (480 kg) and 328 kg (370 kg) for the calendar quarter ending in September 2010. Drop in production in Q3 2010 in comparison with Q3 2009 relates to CAG's new ore-oriented strategy (sites of Tardan and Solcocon). Gold production in Q3 2009 was mostly supported by alluvial sites of Artelj Lena, Artelj Tyva and Gold Borzya extracting gold mainly during the third quarter due to the seasonal factor.

In addition, a revenue component of TSEK 5,719 (TSEK 1,446) is included in the consolidated P/L account for the nine month period of 2010 relating primarily to reimbursement of input VAT in the Parent company, refer to «Parent company» section below.

The change in stock of finished and semi-finished goods amounted to TSEK 19,227 (TSEK 11,254) during the reporting period. For the last quarter of the reporting period the stock movement item amounted to TSEK 4,856 (TSEK 6,047).

During the nine months January – September 2010 total exploration costs of TSEK 17,237 (TSEK 8,266) were capitalized at subsidiary level. For the quarter July – September 2010 the corresponding capitalization component was TSEK 11,057 (TSEK 3,875).

Total operating costs in the group during the reporting period amounted to TSEK -175,423 (TSEK -141,719). For the last quarter of the period total operating costs were TSEK -96,701 (TSEK -96,803). The operating result amounted to TSEK 4,123 for the nine month period (TSEK -31,834 without effect of negative goodwill dissolution) and TSEK 8,420 for the quarter July – September 2010 (TSEK -9,967).

Net financial items were TSEK -17,482 (TSEK -19,173) for the reporting period. For the quarter July-September 2010 net financial items amounted to TSEK -16,277 (TSEK -6,541).

The tax cost for the reporting period was TSEK -9,586 (TSEK 4,760). It relates predominantly to a change in deferred taxation on subsidiary level. The tax item during the third quarter of 2010 was TSEK -3,488 (TSEK 4,641).

The minority share of the net result for the reporting period was TSEK -207 (TSEK 76). It relates to the subsidiary OOO Artelj Lena. For the quarter July-September 2010 minority result was TSEK -16 (TSEK 222).

## **Mining operations**

### Ore mining

#### **Tardan**

As at September 30 Tardan Gold produced 133 kg at its gravitation plant. 90 000 tons of ore and 40 000 tons of tailings have been prepared for leaching. Ore crushing and heap construction is going to be finished by November 25.

The Heap leaching plant construction is progressing rapidly. Project approvals and the construction permit have been granted, the cyanide permit application has been submitted.

The following developments should be noted:

#### **1. ADR Plant**

- Earthworks for preparation and leveled ground in hilly terrain were completed in July
- Soil compaction and concrete placement started in August were finished in September
- Foundations have mostly been completed
- Reagent storage- the most critical condition for obtaining cyanide permit, has been built
- 90% of all equipment ordered have been shipped, It's installation has started and is planned to be finished in spring 2011
- Steel erection started in October, building is going to be finished by November 15

#### **2. Leach Pad**

- Leach pad and PLS Pond Earthworks, lining and drainage installment has been completed
- Reserve pond construction was started in Q3 and is going to be finished in spring 2011

#### **3. Crushing, Agglomeration**

- Agglomeration and stacking equipment has been shipped
- Conveyors have been delivered

#### **4. Infrastructure**

- Additional accommodation for 150 people has been built
- Access roads are being constructed
- Pipelines construction is being held for water supply purposes

#### **Solcocon (Rudtechnology)**

Over 3 quarters of 2010 Rudtechnology has carried out a complete overhaul of processing, ore-dressing and mining equipment. 294 800 cubic meters of rock were mined including 106 500 tonnes of ore processed with an average grade of 1,7 g/t. 190 000 tonnes of ore stacked during previous years were processed by heap leaching together with the new crushed and stacked ore (102 000 tonnes). 98 kg of gold was produced in 9 months including 86 kg produced in Q3. Heap leaching plant reconstruction effected in Q2 brought about a threefold increase in capacity to 150 cubic meters per hour.

The heap is being prepared for year-round irrigation. The following actions have been taken:

- Heat insulation of process pipelines
- Winter irrigation system installation
- Boiler equipment installed

### Alluvial mining

Alluvial gold production depends on the seasonal factor. Russian alluvial miners extract gold mainly during the third quarter (July-September). During the first and second quarter of the financial year only stripping activities are carried out, such as maintenance works on equipment and excavation works. Gold extraction work starts in May, when the watercourses are flowing again, and extends to late October, that is during the warm part of the year.

### **Gold Borzya**

193 kg was produced during the period April-September 2010. Gold mining is going to be completed by the middle of November. Additional concentrator and rented equipment ensured production increase in the course of the season.

### **Artejl Lena**

105 kg was produced as at September 30. Production activity for this season is going to be completed by the middle of November. Lena didn't reach the production targets in 2010. Two new mining sites developed this year –Aroi (Nizhneudinsk region) and Kevakta (Bodaibo region) haven't demonstrated its value. Expected reserves at Aroi were not confirmed in practice. Rubble rock at Kevakta didn't allow for an increase in the production level due to the lack of equipment capable of working in such conditions.

## **Exploration activities**

### **Tardan field**

Gold mineralization within the license area is associated with skarns and metasomatic rocks. Skarn-type gold mineralization at Tardan Field has been studied historically. A total of 10 tonnes of P1 resource were assigned to several ore bodies.

A detailed geochemical survey of the prospects is being held in order to identify new gold anomalies and study mineralized zones as a potentially much larger tonnage resource.

Over the 9 months 2010 sediments testing results have been analyzed. 1,344 geochemical samples were collected in 2008 -2009 and were processed and assayed at the Alex Stewart Laboratory in Moscow.

An exploration program which includes geochemical prospecting (secondary areoles dispersion), trenching, and drilling was worked out. By the end of September 2010, 16 355 samples have been collected and transferred to Alex Stewart Laboratory in Moscow. 1956 samples have been processed, the rest will be processed by year-end.

### **Staroverinskaya field**



20 000 samples were collected in a 100\*100 m of the whole Staroverinskaya license area, and shipped to the Stewart Geochemical Laboratory in Moscow.

The study according to the contract with ChGR to prepare “TEO postoyannih kondicii” (technical and economic assessment of exploration and mining parameters or “conditions”) for Bogomolovskoe deposit, was completed. TEO will now be valid for any additional heap-leachable reserves found at Staroverinskaya license area without going through reserve approval process. Exploration work within the area of Bogomolovskoe deposit (Podgornoe and Yuzhnoe sites) revealed extension of the orebodies (to be explored in 2011). 1,105 samples were collected and processed. Exploration resulted in increase of oxidized gold reserve by 250 kg. Exploration work at Kozlovskoe deposit, metallurgical testing of oxidized and primary ores, TEO, and Reserve Statement will be completed by 31 March 2011.

### **Kara-Beldyr**

To date 31 diamond drill holes totalling 5,120 metres have been completed on the property.

Of this drilling 15 drill holes totalling 2,431 metres have been completed on the Gord prospect. This drilling on 100 metres sections has outlined a zone of sulphide hosted gold mineralization over a strike length of 750 metres to a depth of greater than 250 metres with an average width of 25 metres and the mineralization is open to depth.

Road and pad construction was resumed in the Gord prospect.

Further drilling should be focused on the core of the Gord prospect where 50 by 50 m drilling is planned to evaluate resources.

Initial exploration and drilling in the Camp (Conglomerate) Zone has identified a gold bearing structure. It is a relatively narrow zone (10 - 15m) which carries erratic high grades. It has probably underground potential which should be tested further with drilling.

### **Uzhunzhul**

Uzhunzhul continued its geochemical survey of the anomaly discovered during exploration works carried out in the year 2009.

The results confirm Yurkovsky and Paraspan prospects. A number of interesting structures have been identified on the areas. 5 657 samples have been collected and sent to the Alex Stewart Laboratory, 1 195 samples have been processed, the rest will be processed by year-end. A new geochemical anomaly, called “Lagernaya”, has been discovered. Detailed geochemical survey of anomalies is being conducted this year. Trenches that have uncovered gold bearing structures in previous years were expanded and double tested.

### **Investments, liquidity and financing**

During March and April of 2010 MSEK 12 of working capital was financed via shareholder loans from Bertil Holdings, a major shareholder of CAG. The annual interest rate was 16%. Those loans were, together with loans originated from earlier years, converted into equity during the rights issue process in accordance with the decision taken at the Annual general meeting on 28 June 2010.

In March 2010 Artelj Lena received a loan from Svyaz-Bank in amount of MRUB 95 to cover current expenses related to the alluvial season working capital and preparation work. The annual interest rate was 15%. The loan was fully repaid in October 2010.

In April 2010 GRE-324 opened an MRUB 80 credit line in Svyaz-Bank for the purpose of financing alluvial and ore operations of Gold Borzya and Rudtechnology. The annual interest rate was 15%. The loan was fully repaid in October 2010.

In July 2010 Tardan and Svyaz-Bank concluded a loan agreement providing for a MRUB 500 credit line for the financing of the adoption of technology required for the mining and processing of ore gold by heap leaching (including construction, purchase of equipment and launch of the heap leaching complex). The provision of funds under the credit line is from July 2010 until March 2011. The repayment of credit will take place from July 2011 till December 2011. The annual interest rate is 12%.

In August CAG completed the rights issue and received about 88 MSEK after transaction costs and offsetting of loans. Part of these funds was already spent on business development purposes (purchase of equipment, exploration works, etc.).

### **The parent company**

The Swedish parent company is a holding company without significant operations. It supports the subsidiary companies with financing, investor relation services and strategy reviews etc. Thus it usually has no income other than interest on loans extended to the subsidiaries from time to time or in respect of bank deposits. Also, the exchange rate effects assets and liabilities denominated in foreign currencies which may impact the results.

During the second quarter, the parent company managed to recover the Swedish input VAT relating to the entire period since incorporation. The VAT amounts to TSEK 5,009 and has been recognized as revenue during the second quarter. Full amount VAT was repaid by tax authorities till the middle of November 2010.

The net result for the nine month period January - September 2010 was TSEK -18,457 (TSEK -5,314), TSEK -26,812 from this amount is related to exchange rate losses, mainly on loans to subsidiaries. For the third quarter of the reporting period, the net result was TSEK -24,957 (TSEK -5,377).

Cash in the parent company was TSEK 42,592 (TSEK 3,952) at end of September 2010.

### **Employees**

The group had on average 869 (912) employees during the first nine months of 2010. As per end of September 2010 the number of employees in the group was 975 (715).

### **Issued shares**

CAG completed a rights issue in August 2010. The rights issue was fully subscribed and CAG received proceeds amounting to approximately MSEK 226 before transaction costs. Shares representing approximately MSEK 126 of the total MSEK 226 were paid for by off-setting debts owed by CAG to Bertil Holdings, a major shareholder of CAG. CAG's number of shares increased by 141.225.000

through the rights issue. After the rights issue the total number of shares amounted to 158.878.125, each with a quota value of SEK 1.125, and the share capital amounted to SEK 178,737,891.

On October 08, 2010 the share capital increased by SEK 1,453,209.75 through a directed share issue of 1,291,742 shares for guarantee providers of the rights issue. In addition, share capital was increased by SEK 3.375 (in order to make the total number of shares divisible by 10 for the purpose of the subsequent consolidation of shares) and the number of shares was increased to 160,169,810. The consolidation of shares 1:10 was carried out on October 20, 2010 in order to meet the listing requirements of NASDAQ OMX First North Premier.

At the most recent AGM held on June 28, 2010 in Stockholm the Board of Directors of CAG was authorized, until the next AGM, to conduct share (or warrants or convertible bonds) issues with or without observing the shareholders' preferential rights amounting up to 49,048,698 new shares. The issue price shall in such cases be set as closely as possible to the prevailing market price of the share. It was also decided to issue 10,650,000 warrants for an incentive program for employees. At the date of reporting 8,300,000 out of 10,650,000 warrants were subscribed for by CAG employees. Price per warrant is SEK 0.19, the strike price is SEK 25 per share.

## **Major events after the end of the reporting period**

### ***Increase of share capital***

On October 08, 2010 the share capital was increased by SEK 1,453,209.75 through a directed share issue of 1,291,742 shares for guarantee providers of right issue. In addition, share capital was increased by SEK 3.375 (in order to make the total number of shares divisible by 10 for the purpose of subsequent consolidation of shares) and number of shares was increased to 160,169,810.

### ***Incentive program***

According to the resolution at the recent shareholders annual meeting 10,650,000 warrants (entitles to 1,006,500 shares after consolidation of shares 10:1) has been issued to the subsidiary Tardan Gold. The warrants will be used as an incentive program for key personnel. The warrants were registered at Bolagsverket 8 October.

### ***Consolidation of shares 10:1***

Consolidation of shares 10:1 was carried out on October 20, 2010 in order to meet the listing requirements connected with marketplace changing from the NGM to NASDAQ OMX First North Premier.

### ***Sale of Artelj Lena and Artelj Tyva***

Taking into account the ore orientation of the CAG policy Artelj Lena and Artelj Tyva are not a strategic to the Group's core business and do not have a role in CAG's long-term strategy. Besides, underproduction together with the high cost base makes the companies un-profitable to maintain within the CAG Group.

3% of the shares in Artelj Lena ownership was sold in Q3, however none of obligations previously specified in the sales contract were fulfilled by the purchaser. Therefore it was decided not to proceed

with further negotiations with Lena Gold concerning the sale issue. Other opportunities to sell Artel Lena will be analyzed.

Artelj Tyva produced 12 kg in October 2010. The Sale Agreement with LLC «Techpromzoloto» was signed in November 2010.

### **Next report due**

The next financial report due is the interim report for the period January –December 2010. It will be released on February 25, 2011.

### **Company information**

The parent company's full name is Central Asia Gold AB (publ). It is a public limited liability company with head office in Stockholm. The corporate identification number is 556659-4833. Address of the parent company is Engelsbrektsplan 2, 4 tr, 114 34 Stockholm.

**Central Asia Gold AB (publ)**

org no 556659-4833

**GROUP PROFIT AND LOSS ACCOUNT**

(all amounts in TSEK)

	3 months 2010-07-01 -2010-09-30	3 months 2009-07-01 -2009-09-30	9 months 2010-01-01 -2010-09-30	9 months 2009-01-01 -2009-09-30	12 months 2009-01-01 -2009-12-31
Net sales	89 161	76 431	137 362	88 918	155 800
Capitalised costs	11 057	3 875	17 237	8 266	10 750
Change in stock of finished and semi-finished goods	4 856	6 047	19 227	11 254	3 099
Other operating revenues	47	483	5 719	1 446	1 650
Dissolution of negative goodwill	-	-	-	201 261	195 396
<b>Total income</b>	<b>105 120</b>	<b>86 837</b>	<b>179 546</b>	<b>311 146</b>	<b>366 694</b>
<b>Operating costs</b>					
External costs	-58 653	-68 128	-102 420	-90 449	-125 071
Personnel costs	-29 830	-18 839	-53 001	-36 825	-55 745
Depreciation	-8 217	-9 837	-20 001	-14 446	-22 812
<b>Total operating costs</b>	<b>-96 701</b>	<b>-96 803</b>	<b>-175 423</b>	<b>-141 719</b>	<b>-203 627</b>
<b>Operating result</b>	<b>8 420</b>	<b>-9 967</b>	<b>4 123</b>	<b>169 427</b>	<b>163 067</b>
Net financial items	-16 277	-6 541	-17 482	-19 173	-23 485
<b>Result after net financial items</b>	<b>-7 857</b>	<b>-16 508</b>	<b>-13 359</b>	<b>150 254</b>	<b>139 582</b>
The period's tax cost	-3 488	4 641	-9 586	4 760	2 707
<b>Net result after tax for the period</b>	<b>-11 345</b>	<b>-11 867</b>	<b>-22 945</b>	<b>155 014</b>	<b>142 289</b>
Whereof attributable to the shareholders of the parent company	-11 329	-12 089	-22 738	154 938	142 213
Whereof attributable to the minority	-16	222	-207	76	76
<b>Earnings per share before dilution, SEK</b>	-0,18	-0,68	-0,69	9,09	8,27
<b>Earnings per share after dilution, SEK **)</b>	-0,18	-0,68	-0,69	9,09	8,27
Number of shares issued at period end	158 878 125	17 653 125	158 878 125	17 653 125	17 653 125
Average number of shares for the period	63 441 096	17 653 125	33 083 504	17 052 783	17 202 457
Average number of shares for the period after dilution **)	63 441 096	17 653 125	33 083 504	17 052 783	17 202 457

\*\*) There are 2.5 million outstanding warrants at end of September 2010 and at the date of this report. The strike price is however SEK 40 per warrant corresponding to one share. Each warrant entitles to subscription of 1 new share. Last date of exercising the options is end of January 2012. Since the strike price is higher than the prevailing market price, no dilution currently arises due to these warrants. Refer to "Issued shares" section for number of warrants at the date of this report.

**Central Asia Gold AB (publ)**

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(all amounts in TSEK)

	3 months 2010-07-01 -2010-09-30	3 months 2009-07-01 -2009-09-30	9 months 2010-01-01 -2010-09-30	9 months 2009-01-01 -2009-09-30	12 months 2009-01-01 -2009-12-31
Net result for the period	-11 345	-11 867	-22 945	155 014	142 289
<b>Other comprehensive income</b>					
Translation difference	-15 923	-6 343	-29 132	-1 536	3 612
<b>Total comprehensive income for the period</b>	<b>-27 268</b>	<b>-18 210</b>	<b>-52 077</b>	<b>153 478</b>	<b>145 901</b>
<b>Total comprehensive income for the period attributable to:</b>					
Parent company's shareholders	-27 251	-18 432	-51 870	153 402	145 825
Minority	-16	222	-207	76	76

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<b>GROUP BALANCE SHEET</b> (all amounts in TSEK)	<b>Sept 30, 2010</b>	<b>Sept 30, 2009</b>	<b>Dec 31, 2009</b>
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
<i>Intangible fixed assets</i>	157 528	143 927	149 218
<i>Tangible fixed assets</i>	101 675	103 499	101 356
<i>Financial fixed assets</i>	29 366	31 368	37 603
<b>Total fixed assets</b>	<b>288 569</b>	<b>278 794</b>	<b>288 177</b>
<b>CURRENT ASSETS</b>			
Inventories	120 560	98 783	85 426
Current receivables	92 357	61 970	44 830
Cash and bank	56 526	5 650	22 732
<b>Total current assets</b>	<b>269 443</b>	<b>166 403</b>	<b>152 987</b>
<b>TOTAL ASSETS</b>	<b>558 011</b>	<b>445 197</b>	<b>441 164</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>355 998</b>	202 002	<b>194 421</b>
Minority interest	1 475	1 540	1 681
<b>Total equity</b>	<b>357 473</b>	<b>203 542</b>	<b>196 102</b>
<b>Long term liabilities</b>	<b>124 173</b>	<b>128 055</b>	<b>140 894</b>
<b>Current Liabilities</b>	<b>76 365</b>	<b>113 600</b>	<b>104 168</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>558 011</b>	<b>445 197</b>	<b>441 164</b>
<b>ASSETS PLEDGED</b>			
Bank accounts	50		50
Material fixed assets	39 043	6 967	7 381
<b>CONTINGENT LIABILITIES</b>			
	-	-	-

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**GROUP CASHFLOW ANALYSIS**

(All amounts in TSEK)

	9 months <b>2010-01-01</b>	9 months <b>2009-01-01</b>	12 months <b>2009-01-01</b>
	<b>-2010-09-30</b>	<b>-2009-09-30</b>	<b>-2009-12-31</b>
Operating activities	4 123	169 427	163 458
Adjustment fot items not included in the cash flow	20 001	-186 816	-172 584
Paid/received interest and similar items	-5 552	-1 812	-2 275
Cash flow from operations before changes in working capital	<b>18 572</b>	<b>-19 201</b>	<b>-11 401</b>
Changes in working capital	-41 414	11 564	15 989
Net cash flow used in operating activities	<b>-22 842</b>	<b>-7 637</b>	<b>4 587</b>
Net cashflow used in investing activities	-94 990	-8 280	-2 945
Net cash flow from financing activities	151 226	21 497	21 021
Cash flow for the period	<b>33 394</b>	<b>5 581</b>	<b>22 662</b>
Cash and bank at the beginning of the period	<b>22 732</b>	<b>144</b>	<b>144</b>
Translation difference in cash and bank	400	-75	-75
<b>Cash and bank at the end of the period</b>	<b>56 526</b>	<b>5 650</b>	<b>22 732</b>

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**STATEMENT OF CHANGES IN EQUITY (GROUP)**

(Expressed in TSEK)	Share capital	Additional paid in capital	Other reserves	Retained earnings	Minority interest	Total equity capital
<b>Equity as at December 31, 2008</b>	<b>106 125</b>	<b>-104 497</b>	<b>1 303</b>	<b>-63 208</b>	<b>0</b>	<b>-60 277</b>
Total comprehensive result for the period Jan 1 - Sept 30 2009			-1 536	155 014	76	153 554
Equity contribution		70 036				70 036
Shares issued for the acquisition of the CAG group	70 406	-31 570			1 393	40 229
<b>Equity as at Sept 30, 2009</b>	<b>176 531</b>	<b>-66 031</b>	<b>-233</b>	<b>91 806</b>	<b>1 469</b>	<b>203 542</b>
Total comprehensive result for the period Oct 01 - Dec 31 2009			5 148	-12 801	212	-7 440
<b>Equity as at December 31, 2009</b>	<b>176 531</b>	<b>-66 031</b>	<b>4 915</b>	<b>79 005</b>	<b>1 681</b>	<b>196 102</b>
Total comprehensive result for the period Jan 1 - Sept 30 2010			-29 132	-22 738	-207	-52 076
Reduce of share capital	-156 671	156 671				0
Right issue	158 878	67 082				225 960
Costs for right issue		-12 513				-12 513
<b>Equity as at Sept 30, 2010</b>	<b>178 738</b>	<b>145 209</b>	<b>-24 217</b>	<b>56 267</b>	<b>1 475</b>	<b>357 473</b>

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	9 months	9 months	12 months
	<b>2010-01-01</b>	<b>2009-01-01</b>	<b>2009-01-01</b>
KEY RATIOS	<b>-2010-09-30</b>	<b>-2009-09-30</b>	<b>-2009-12-31</b>

**Group**

Total assets, TSEK	558 011	445 197	441 164
Total equity, TSEK	357 473	203 542	196 102
Equity ratio, %	64,1%	45,7%	44,5%
Interest bearing debt, TSEK	72 408	128 002	140 594
Employees at period end	975	715	556
EBITDA, TSEK	24 124	183 873	185 879
EBITDA, excl. neg. goodwill dissolution, TSEK	24 124	-17 388	-9 517

**Per share data**

Earnings per share, SEK	-0,69	9,09	8,27
Equity per share (SEK)	2,24	11,85	11,11
Return on equity (%)	-8,3%	104,1%	86,4%

**Key ratio definitions**

Total assets, TSEK	Total assets at period end
Total equity, TSEK	Total equity including minority at period end
Equity ratio, %	Total equity according to above divided by total assets expressed as a percentage
Interest bearing debt, TSEK	Total interest bearing debt at the period end
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
Earnings per share	Net result after tax for the period divided by the average number of outstanding shares for the period before dilution
Equity per share (SEK)	Total equity according to above at the period end divided by the total number of shares outstanding at the period end
Return on equity (%)	Net result after tax for the period divided by the average equity according to above for the same period



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**PARENT COMPANY PROFIT  
AND LOSS ACCOUNT**

(all amounts in TSEK)

	3 months 2010-07-01 -2010-09-30	3 months 2009-07-01 -2009-09-30	9 months 2010-01-01 -2010-09-30	9 months 2009-01-01 -2009-09-30	12 months 2009-01-01 -2009-12-31
Other operating revenues	0	-	5 009	-	-
<b>Total income</b>	<b>0</b>	<b>-</b>	<b>5 009</b>	<b>-</b>	<b>-</b>
External costs	135	-2 396	-4 050	-6 836	-9 668
Personnel costs	-155	997	-451	-770	-971
Depreciation of tangible and non-tangible fixed assets	-	-	-	-2	-2
<b>Total operating costs</b>	<b>-20</b>	<b>-1 418</b>	<b>-4 500</b>	<b>-7 607</b>	<b>-10 641</b>
<b>Operating result</b>	<b>-20</b>	<b>-1 418</b>	<b>508</b>	<b>-7 607</b>	<b>-10 641</b>
Net financial items	-24 938	-3 958	-18 965	2 294	-1 640
Result after net financial items	-24 957	-5 377	-18 457	-5 314	-12 281
The period's tax cost	-	-	-	-	-
<b>Net result after tax for the period</b>	<b>-24 957</b>	<b>-5 377</b>	<b>-18 457</b>	<b>-5 314</b>	<b>-12 281</b>

**Central Asia Gold AB (publ)**

org no 556659-4833

**PARENT COMPANY BALANCE SHEET**

(all amounts in TSEK)

	<b>Sept 30, 2010</b>	<b>Sept 30, 2009</b>	<b>Dec 31, 2009</b>
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
Intangible fixed assets	-	391	-
Tangible fixed assets	-	-	-
<b>Financial fixed assets</b>	<b>703 099</b>	<b>591 825</b>	<b>519 000</b>
<b>Total fixed assets</b>	<b>703 099</b>	<b>592 216</b>	<b>519 000</b>
<b>CURRENT ASSETS</b>			
Current receivables	5 730	1 411	742
Cash and bank	42 592	3 952	14 794
<b>Total current assets</b>	<b>48 322</b>	<b>5 363</b>	<b>15 535</b>
<b>TOTAL ASSETS</b>	<b>751 422</b>	<b>597 579</b>	<b>534 535</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>654 911</b>	<b>495 812</b>	<b>488 844</b>
<b>Long term liabilities</b>	<b>94 090</b>	<b>85 805</b>	<b>14 802</b>
<b>Current Liabilities</b>	<b>2 421</b>	<b>15 962</b>	<b>30 888</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>751 422</b>	<b>597 579</b>	<b>534 535</b>
<b>ASSETS PLEDGED</b>			
Bank accounts	50	50	50
<b>CONTINGENT LIABILITIES</b>			
	-	-	-

**Note 1 Acquisitions** On March 2, 2009 Central Asia Gold AB completed the merger with the NMC companies. After the successful completion of the merger the financial statements have been prepared using the accounting model for "reversed acquisitions" since the two shareholders of NMC owned 85% of CAG following the transaction. This accounting treatment requires NMC companies to be treated as the accounting acquirer for the consolidated financial information and CAG being presented as the acquired. As a consequence, the assets and liabilities of CAG, being the legal parent, have been recorded at fair value initially in the consolidated financial statements. The assets and liabilities of the legal subsidiaries, the 5 NMC companies, have been recognized and measured in the combined financial statements at their pre-combination carrying amounts. The consolidated CAG and NMC companies' financial statements have been prepared starting from the third month of the first quarter of 2009 using the prescribed accounting model.

## **Accounting principles**

### Group

The consolidated accounts for Central Asia Gold AB have been prepared in accordance with International Financial Reporting Standards (IFRS) as described in the annual report for financial year 2009.

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and in accordance with the Swedish Annual Accounts Act. The new or revised IFRS standards or IFRIC-recommendations that have been enacted since 1 January 2010 have not had any material effect on the group's profit and loss- and balance sheets.

As it was described in other places of this report, the group's financial statements for the comparing period in 2009 have been prepared using the accounting model prescribed for reversed acquisitions.

### Parent company

In all significant ways the parent company applies the same accounting principles as the group. In addition, the parent company applies RFR 2.3 *Accounting for legal entities*.

## **Segment information**

The company's accounts for segments are done in accordance with IFRS 8. At present the company only considers that it has one segment.

## **Risk and uncertainties associated with this interim report**

The group's risk exposure is presented on page 28 of the 2009 annual report (Swedish version). The Board of Directors believes that the most important risk factors for the time being are:

- 1) *Gold price risk*: The fluctuations of the international gold price directly influence the revenues of a gold producing company.
- 2) *Political risks*: Central Asia Gold currently operates only in Russia. Being a young democracy Russia does not have as stable political situation as it is in the older democracies of Western Europe.
- 3) *Inflation risk*: The Russian economy has been subject to significant inflation pressure during the last few years. This directly impacts on the production costs in a gold mining company.
- 4) *Geologic risk*: The recoverable gold reserves of a gold exploration and production company are influenced by geologic and economic factors. The estimation of reserves is therefore at all times dependent on the international gold price, costs associated with the extraction of the gold etc. Therefore the estimated gold reserves of any gold company may change at any point in time. In particular the alluvial subsidiaries of the Central Asia Gold group are sensitive to cost increases.

- 5) *Financial and project risk:* Central Asia Gold AB is a junior gold mining company at an early stage. It is involved in production of gold as well as exploration. The company is still dependent on external financing for developing its business. If the availability of external financing were to get reduced it would negatively influence the future perspectives of the company. The currently very bad sentiments on the global stock markets must be taken in to account.
- 6) *Legal risks:* The subsidiary LLC Artelj Lena is involved in various court procedures with certain individuals who were members of Artel before it was converted from producers' cooperative to LLC. The issue concerns conditions pertaining to the time before Central Asia Gold took over OOO Artelj Lena. Legal entity converted from a producers' cooperative to LLC is not a legal successor regarding issues of membership of individuals in the entity, including appeal of the shareholders decisions taken at General Meeting of producers' cooperative. This statement is provided by the Superior Arbitration Court's Decision dated August 20, 2008 №10603/08. On the basis of mentioned above, the Management of the Central Asia Gold is deemed that all claims against Artel Lena can not be satisfied in future. Central Asia Gold's and Artelj Lena's legal representatives undertake comprehensive legal work aiming to minimize the effects of this minority case. However, there are no guarantees that former members would not file additional petitions to court claiming for minority stake.

### **Transactions with related parties**

CAG AB has several transactions with related parties. This is in detailed presented in page 56 in the annual report 2009.

MSEK 12 of the working capital was provided in March-April 2010 by major shareholder Bertil Holdings. Also TUSD 1,145 related to merger expenses paid by Preston Haskell's companies in 2009, these were executed as a loan. The annual interest rate for both loans is 16%. Those loans, as all loans from Bertil Holdings Ltd, were transferred into equity within right issue process according to the decision taken at the Annual general meeting 28 June 2010, refer to section « Issued shares» above.

Equipment, rented during last 3 years by CAG subsidiaries from Technodvor, related to Preston Haskell, was purchased in October 2010 for MRUB 66. The purchase price corresponds with market conditions.

*The board of directors and the managing director confirm that the interim report provides an accurate overview of the company's and the group's operations, position, results and that it describes significant risks and uncertainties that the company and group companies are exposed to.*

Stockholm, November 26, 2010

Central Asia Gold AB (publ.)

Lars Guldstrand  
*Chairman*

Mike Nunn  
*Director*

Patric Perenius  
*Director*

Alice Volgina  
*Director*

Preston Haskell  
*CEO and Director*

## **Review report**

We have reviewed this report for the period 1 January 2010 to 30 September 2010 for Central Asia Gold (publ). The board of directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

We conducted our review in accordance with the Swedish Standard on Review Engagements SÖG 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden, RS, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Stockholm, 26 November 2010

Öhrlings PricewaterhouseCoopers

Martin Johansson  
Authorised Public Accountant

For more information, please contact:

CEO Preston Haskell, tel: +7 985 765 00 84, fax: +46 (0)8 624 37 20,  
e-mail: preston.haskell@centralasiagold.se, website: www.centralasiagold.se,  
Postal and visiting address: Engelbrektsplan 2, 4 tr., 114 34 Stockholm.

Chairman Lars Guldstrand, tel +46 705 28 81 81,  
email: lars.guldstrand@centralasiagold.se

Central Asia Gold AB is a Swedish mining company focused on gold production and exploration in Russia in the central parts of Asia. The gold production was initiated in late January 2005 and the assets were as at end of September 2010 estimated to 760,000 troy ounces (oz) (1 oz = 31.1 g) of gold reserves according to the Russian C1+C2 categories (equaling some 24 tons).

**Cautionary Statement:** Statements and assumptions made in this report with respect to Central Asia Gold AB's ("CAG") current plans, estimates, strategies and beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of CAG. Forward-looking statements include, but are not limited to, those using words such as "may", "might", "seeks", "expects", "anticipates", "estimates", "believes", "projects", "plans", "strategy", "forecast" and similar expressions. These statements reflect management's expectations and assumptions in light of currently available information. They are subject to a number of risks and uncertainties, including, but not limited to, (i) changes in the economic, regulatory and political environments in the countries where CAG operates; (ii) changes relating to the geological information available in respect of the various projects undertaken; (iii) CAG's continued ability to secure enough financing to carry on its operations as a going concern; (iv) the success of its potential joint ventures and alliances, if any; (v) exchange rates, particularly between the Russian rouble and the U.S. dollar. In the light of the many risks and uncertainties surrounding any gold production and exploration company at an early stage of its development, the actual results could differ materially from those presented and forecast in this report. CAG assumes no unconditional obligation to immediately update any such statements and/or forecasts.