

LOTUS RESOURCES PLC
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 SEPTEMBER 2009

LOTUS RESOURCES PLC

Directors and advisors For the year ended 30 September 2009

Directors

S J Longworth (Chief executive)
J P Benson
Dr Y Wang
L Lu

Secretary

J P Benson FCA

Registered Office

Tower Bridge House
St Katharines Way
London
E1W 1DD

Auditors

Mazars LLP
Registered Auditors
Chartered Accountants
Clifton Down House
Beaufort Buildings
Clifton Down
Clifton
Bristol
BS8 4AN

Solicitors

Burges Salmon LLP
Narrow Quay House
Narrow Quay
Bristol BS1 4AH

Bankers

HSBC Bank plc
69 Pall Mall
St James's
London
SW1Y 5EY

Nominated advisor and broker

Rivington Street Corporate Finance
3rd Floor
Henry Thomas House
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LOTUS RESOURCES PLC

Directors and advisors
For the year ended 30 September 2009

Registrars

Share Registrars
First Floor
9 Lion and Lamb Yard
Farnham
Surrey
GU9 7LL

Public Relations

Lothbury Financial
Mercury House
Triton Court
Finsbury Square
London EC2A 1BR

	Page
Chief executive's statement	1
Directors' report	3
Independent auditors' report	7
Consolidated income statement	9
Consolidated statement of recognised income and expense	10
Consolidated balance sheet	11
Company balance sheet	12
Consolidated cash flow statement	13
Company cash flow statement	14
Notes to the financial statements	15-35

Dear Shareholder

I am pleased to announce the results of the Company for the year ended 30 September 2009.

Overview

The past year has seen continued good progress in the growth and development of Lotus Resources project portfolio in Mongolia where we have identified the opportunity to build an integrated fluorspar exploration, mining, processing and trading operation.

During the year the Company formed several business arrangements with local partners. Through these we acquired two exploration licences and one mining licence and undertook a small amount of trading in fluorspar. Since the year end we have acquired a further mining licence in our own right and have increased the holding in both of the exploration licences.

Financial results for the year ended 30th September 2009

The Group made a loss before tax of £425,489 (year ended 30 September 2008: Loss £323,634) with the expenditure primarily invested in investigating potential mining investments and acquiring exploration and mining licences.

During the year the Company successfully raised £133,285 from the issue of 4.4 million shares at an average of 3p per share and since the year end has raised a further £200,000 through the issue of 10 million shares at 1p per share and 4.69 million shares at 2.13p per share. In addition the Company has raised a £500,000 Cumulative Convertible Redeemable Secured Loan Note as shown in note 26 to the financial statements.

This has provided the Company with working capital and asset finance to pursue its strategy.

As at 30 September 2009, the Company had cash of £43,701.

Operations

Lotus Resources Plc operates in Mongolia through its wholly owned subsidiary Lotus Minerals Mongolia LLC (LMML) which holds the Group's investments in its mining and exploration companies.

Lotus Bayalag LLC was formed on 10 November 2008 and the exploration licence was transferred to Lotus Bayalag on 15 May 2009 when Mr Orgil Enkh-Onon, a local Mongolian businessman, took an interest of 35% in the company. LMML now owns 80% of the company having acquired a further 15% on 25 December 2009 for \$15,000. The exploration licence covers 1,066.7 hectares and is located approximately 225km east of Ulaanbaatar. Limited exploration work has been carried out on this licence so far, which involved trenching and test pitting on three outcropping fluorite veins. An exploration programme has been prepared to cover mapping and trenching and will commence during 2010.

Lotus Dai Uul LLC was formed on 16 February 2009 and the exploration licence was transferred to Lotus Dai Uul on 23 April 2009 when GXT LLC, a Mongolian company, took an interest of 49% in the company. LMML now owns 100% of the company having acquired this 49% on 12 January 2010 for \$70,000. The licence covers 83 hectares approximately 300km southeast of Ulaanbaatar. It is located near the Bor-Ondor Mine (the biggest fluorspar mine in Mongolia) in the Bor-Ondor fluorspar district. In April 2009 the Company undertook a limited exploration programme in the area. The trench and drill data from that exploration work confirmed the validity of the results recorded by the Russians in the 1980s. Trial mining was undertaken during the summer of 2009, and an application for the grant of a mining licence is being prepared. We expect to commence open pit mining in mid 2010 subject to the grant of the necessary permissions.

Lotus Amgalan LLC was formed on 10 June 2009 and the mining licence, which covers 35 hectares, was transferred to Lotus Amgalan on 30 June 2009 when Amguulan LLC, a Mongolian company took an interest

of 49% in the company. The site is located approximately 410km southeast of Ulaanbaatar. It is expected that we will be able to commence mine development in Spring 2010.

Since the year end LMML has acquired the Tsagaan Chuluut mining licence. This was transferred to LMML on 30 December 2009 for a total consideration of \$70,000. The property is located in the Dornogobi Province in central eastern Mongolia, approximately 400km southeast of the Mongolian capital of Ulaanbaatar, and 170km east-southeast of the town of Choir. The mining licence covers an area of 33 hectares. A Government approved resource of 167,000 tonnes of fluorspar ore has been defined to date. The resources are amenable to small scale open pit and underground mining.

Strategy

During 2010 the main focus will be to build an integrated fluorspar business that will encompass exploration, mining, processing and trading of both metallurgical and acid grade fluorspar. This will entail bringing three of the licences into production, once all necessary permissions have been obtained, and conducting further exploration on all of the properties to define additional resources. The Company is actively looking for additional mining and exploration licences in order to add further resources and is also seeking opportunities to expand into fluorspar processing and trading either by making acquisitions or on its own account.

The Company is also keen to add exploration properties for gold and non-ferrous base metals. It is the Directors' intention to identify and acquire small scale, high grade deposits that can be quickly brought into production.

These opportunities, together with the additional commitments under the mining and exploration licences already acquired and the need for additional working capital, will require the Company to raise additional funding. The scale and timing of the fundraising will be dependent on the requirements of the individual projects.

Board

Ian Wang resigned as a director on 9 December 2009. I would like to thank him for his support since the Company was founded in 2006. In his place we welcome Dr Peter McNeill to the Board. Peter has considerable experience of Mongolia which will be valuable as we continue to develop the Company's activities.

I would like to end by thanking the co-founders, shareholders and staff who have been very supportive during these important initial stages in the Company's development and subject to my comments above I look forward to the future with great confidence.

Simon Longworth
Chief Executive
24 February 2010

LOTUS RESOURCES PLC

Directors' report for the year ended 30 September 2009

The directors present their report and the audited financial statements for the year ended 30 September 2009.

Principal activity

The principal activity of the Group is to identify and acquire, either wholly or through joint ventures, mining and exploration properties and companies whose operations the Board believes are not realising their full potential. The current geographical focus is on Mongolia where the Group is engaged in building an integrated fluorspar business encompassing exploration, mining, processing and trading of fluorspar. The principal activity of the Company is that of a holding company.

Results

For the year to 30 September 2009 the group made a loss of £425,489 (2008: a loss of £323,634) Further details are shown in the consolidated income statement on page 9.

This is the first time the group has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with UK accounting standards.

Business review and future developments

A review of the business and future developments is included within the Chief Executive's statement on pages 1 and 2 and the directors are of the opinion that there is no material difference between the book value and the market value of the Group's mining and exploration licences.

Capital Structure

At 1 October 2008 the Company's issued share capital comprised 40,984,080 Ordinary Shares of £0.01. On 5 August 2009 the Company issued a further 4,442,846 shares Ordinary shares. The Share capital of the Company on 30 September 2009 comprised 45,426,926 Ordinary Shares of £0.01.

On 8 December 2009 the Company issued a further 8,018,129 Ordinary Shares of £0.01 at an issue price of 2.13p.

On 9 February 2010 the Company issued a further 4,694,835 Ordinary Shares of £0.01 at an issue price of 2.13p.

Further details of these share issues have been disclosed in note 26 to the financial statements.

The directors have been notified, or are aware of, the following interests of 3% or more of the ordinary share capital of the company at 12 February 2010.

	Number	Percentage of issued ordinary share capital
Starvest plc	15,000,000	21.6%
Vidacos Nominees Ltd	9,143,729	13.2%
Pershing Nominees Ltd	6,456,000	9.3%
JIM Nominees Ltd	5,236,902	7.5%
SJ Longworth	4,181,347	6.0%
Winterflood Securities Ltd	3,129,000	4.5%
Rock (Nominees) Ltd a/c 0323415	2,347,418	3.4%
Rock (Nominees) Ltd a/c 0717858	2,347,418	3.4%
Brewin Nominees(Channel Islands) Ltd	2,158,958	3.1%

Directors

The directors who served during the year were as follows:

S J Longworth	Chief Executive
J P Benson	Finance Director
Dr I Wang	Non-Executive Director
L Lu	Non-Executive Director

Dr I Wang resigned on 9 December 2009 and Dr P McNeill was appointed on 12 December 2009.

Details of any related party payments made to the directors are shown within note 25 of the accounts.

Principal risks and uncertainties

Business Risks

The business of fluorspar exploration and mining has a number of inherent risks. These risks include the Group failing to identify economically viable deposits and the possible failure to produce the expected tonnage or grades at the Group's mining operations. The Board is aware of these risks and regularly reviews progress at the Group's mines to identify and manage these risks in the most effective manner.

Capital risk management

The Group is currently financed solely through equity. It is the intention of the directors that the Group will in future be financed by a mixture of debt and equity as appropriate to maintain a robust balance sheet to support its business and maximise shareholders value.

Liquidity Risk

Liquidity risk arises from the Group's and Company's management of working capital and the amount of funding committed to its exploration and mine development programmes. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. It is the Directors intention to raise sufficient funds as required to ensure it can meet the Group's financial obligations as they fall due.

Foreign currency risk management

The Group has transactional currency exposures. Such exposures arise from sales or purchases by its Mongolian subsidiaries in currencies other than the company's functional currency. The functional currency in Mongolia is Mongolian tugrugs with a number of transactions undertaken in US dollars

The Group does not enter into hedging positions in respect of its exposure to foreign currency risk.

Further details of the Group's financial risk management objectives and policies are set out in note 22 of the financial statements.

Insurances

A directors and officers insurance policy was in place during the year and to the date of this report.

Key Performance Indicators

Given the nature of the business and that the Group is in the early phase of exploration, evaluation and development of its fluorspar projects in Mongolia the directors are of the opinion that analysis using financial KPIs is not appropriate for an understanding of the development, performance or position of the business at this time. However the directors constantly review the Group's current and projected cash positions.

Non-financial key performance indicators

It is the company's intention, when an acquisition is completed, to seek to ensure that responsible business practice is fully integrated into the management of all its operations and into the culture of all its business. It believes that the consistent adoption of responsible business practice is essential for operational excellence, which in turn is expected to ensure the delivery of its core objectives of sustained real growth in future profitability.

Post Balance Sheet Events

These have been disclosed in note 26 to the financial statements.

Policy and practice on the payment of creditors

The company aims to pay all its creditors promptly. It is the Group's policy to agree the payment terms at the start of business with each supplier, ensure that suppliers are aware of the terms of payment, and pay in accordance with contractual and other legal obligations.

The company had 31 days' purchases outstanding at 30 September 2009 based on the average daily amount invoiced by suppliers during the period (30 September 2008: 31 days).

Political and charitable donations

The Group made no political donations or charitable donations in the year (2008: nil).

Auditors

In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant available information of which the Company's auditors were unaware; and
- that director has taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

A resolution to reappoint Mazars LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Corporate governance - Internal financial control

The Group operates a system of internal financial control commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. There is a system in place for financial reporting and the Board receives a number of reports to enable it to carry out these functions in the most efficient manner. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. There are clearly defined authority limits throughout the Group, including those matters which are reserved specifically for the Board. The Board has responsibility for the effectiveness of the internal financial control framework. Such a system can only provide reasonable and not absolute assurance against material misstatement. The Group does not currently have, nor considers there is currently a need for, an internal audit function.

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 year. Under that law the directors have elected to prepare the financial statements in accordance with International Reporting Standards as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable International Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

LOTUS RESOURCES PLC

Directors' report for the year ended 30 September 2009

- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

On behalf of the Board
J P Benson
Director
24 February 2010

We have audited the financial statements of Lotus Resources PLC for the year ended 30 September 2009 which comprise the consolidated income statement, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of changes of equity, the Group statement of recognised income 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 5, 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 (APB's) Ethical Standards for Auditors. This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group and of the Parent Company's affairs as at 30 September 2009 and of the group's loss 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.

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures in note 1 to the financial statements concerning the company's ability to continue as a going concern. The financial statements and related notes have been prepared on the assumption that the Parent Company will be able to raise new finance to fund both the potential exploitation of any mineral reserves and to provide the Company and Group with working capital for a period of not less than 12 months from the date of this report. This condition indicates the existence of a material uncertainty which might cast 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 company was unable to continue as a going concern.

Opinion on the 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 parent 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.

Mazars LLP, Chartered Accountants (Statutory auditor)

Richard Bott (Senior statutory auditor)

Clifton Down House
Beaufort Buildings
Clifton Down
Clifton
Bristol
BS8 4AN

Date 24 February 2010

LOTUS RESOURCES PLC**Consolidated income statement
For the year ended 30 September 2009**

	Notes	2009 £	2008 £
Continuing operations			
Revenue	3	23,949	-
Administration expenses		(451,405)	(326,540)
Operating loss	4	(427,456)	(326,540)
Interest receivable	6	1,974	2,939
Finance costs	7	(7)	(33)
Loss before income tax		(425,489)	(323,634)
Income tax expense	8	-	-
Loss for the year		(425,489)	(323,634)
Attributable to:			
Equity holders of the company		(425,489)	(323,634)
Minority interests		-	-
Loss for the year		(425,489)	(323,634)
Loss per share			
Basic (pence per share)	9	(1.02)	(1.02)
Diluted (pence per share)	9	(1.02)	(1.02)

The accompanying accounting policies and notes on pages 15 to 35 are an integral part of these consolidated financial statements.

LOTUS RESOURCES PLC

Consolidated statement of recognised income and expense For the year ended 30 September 2009

	Notes	2009 £	2008 £
Exchange differences arising on translation of foreign operations	17	5,930	-
Net gain recognised directly in equity		5,930	-
Loss for the year	17	(425,489)	(323,634)
Total recognised loss for the year		(419,559)	(323,634)
Attributable to:			
Equity holders of the company		(419,559)	(323,634)
Minority interests		-	-
		(419,559)	(323,634)

The accompanying accounting policies and notes on pages 15 to 35 are an integral part of these consolidated financial statements.

LOTUS RESOURCES PLC

**Consolidated balance sheet
As at 30 September 2009**

ASSETS	Notes	2009 £	2008 £
Non-current assets			
Intangible assets	10	172,501	-
Property, plant and equipment	11	23,085	10,410
		195,586	10,410
Current assets			
Trade and other receivables	14	26,756	10,359
Cash and cash equivalents		43,701	395,690
		70,457	406,049
Total assets		266,043	416,459
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the company			
Issued capital	16	454,269	409,841
Share premium	17	574,968	504,443
Foreign currency translation reserve	17	5,930	-
Accumulated losses	17	(941,726)	(552,440)
		93,441	361,844
Minority interests	18	94,782	-
Total Equity		188,223	361,844
Current liabilities			
Trade and other payables	19	77,820	54,615
Total equity and liabilities		266,043	416,459

The accompanying accounting policies and notes on pages 15 to 35 are an integral part of these consolidated financial statements.

The financial statements on pages 1 to 35 were approved by the Board of Directors and authorised for issue on 24 February 2010 and were signed on its behalf by:

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J P Benson
 Director

LOTUS RESOURCES PLC

**Company balance sheet
As at 30 September 2009**

ASSETS	Notes	2009 £	2008 £
Non-current assets			
Property, plant and equipment	11	213	638
Investments in subsidiary	12	5,569	5,569
Inter-group loan	13	172,200	14,328
		177,982	20,535
Current assets			
Trade and other receivables	14	3,791	10,359
Cash and cash equivalents		34,945	389,801
		38,736	400,160
Total assets		216,718	420,695
 EQUITY AND LIABILITIES			
Equity attributable to equity holders of the company			
Issued capital	16	454,269	409,841
Share premium	17	574,968	504,443
Accumulated losses	17	(889,489)	(548,125)
		139,748	366,159
Current liabilities			
Trade and other payables	19	76,970	54,536
Total equity and liabilities		216,718	420,695

The accompanying accounting policies and notes on pages 15 to 35 are an integral part of these consolidated financial statements.

The financial statements on pages 1 to 35 were approved by the Board of Directors and authorised for issue on 24 February 2010 and were signed on its behalf by:

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J P Benson
Director

LOTUS RESOURCES PLC**Consolidated cash flow statement
For the year ended 30 September 2009**

	Notes	2009	2008
		£	
Net cash from operating activities	21	(376,616)	(300,451)
Finance income		1,974	2,939
Finance costs		(7)	(33)
		<u>(374,649)</u>	<u>(297,545)</u>
Cash flows from investing activities			
Purchases of property, plant and equipment		(14,574)	(10,764)
Purchases of intangible assets		<u>(77,719)</u>	<u>-</u>
Net cash used in investing activities		<u>(92,293)</u>	<u>(10,764)</u>
Cash flows from financing activities			
Net proceeds from the issue of shares		<u>114,953</u>	<u>693,092</u>
Net cash flow on financing activities		<u>114,953</u>	<u>693,092</u>
Net (decrease)/increase in cash and cash equivalents		(351,989)	384,783
Cash and cash equivalents at the beginning of the year		395,690	10,907
		-	-
		<u>-</u>	<u>-</u>
At the end of the year		<u><u>43,701</u></u>	<u><u>395,690</u></u>

LOTUS RESOURCES PLC

Company cash flow statement For the year ended 30 September 2009

	Notes	2009 £	2008
Net cash from operating activities	21	(471,776)	(310,685)
Finance income		1,974	2,939
Finance costs		(7)	(33)
		<u>(469,809)</u>	<u>(307,779)</u>
Cash flows from investing activities			
Purchases of property, plant and equipment		-	(851)
Purchase of subsidiary		-	(5,569)
Net cash used in investing activities		<u>-</u>	<u>(6,420)</u>
Cash flows from financing activities			
Net proceeds from the issue of shares		<u>114,953</u>	<u>693,093</u>
Net cash flow on financing activities		<u>114,953</u>	<u>693,093</u>
Net (decrease)/increase in cash and cash equivalents		(354,856)	378,894
Cash and cash equivalents at the beginning of the year		389,801	10,907
At the end of the year		<u>34,945</u>	<u>389,801</u>

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

General information

Lotus Resources Plc (the Company) is a company registered in England and Wales on 26 July 2006 under the Companies Act 1985. The address of the registered office is given under Directors and advisors at the front of the document. The nature of the Group's operations and its principal activities are set out in the Directors' report on page 3.

These financial statements are presented in pounds sterling because that is the currency of the parent Company of the Group. Foreign operations are included in accordance with the policies set out in this note.

Basis of preparation

The financial statements have been prepared on the historical cost basis, in accordance with International Financial Reporting Standards as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their financial statements under IFRS. The principal accounting policies adopted are set out below.

Going Concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

In common with many early stage mining and exploration companies, the Company raises finance for its activities in discrete tranches. Further funding is raised as and when required. When any of the Group's projects move to the development stage, specific financing will be required. The ability to obtain additional funding will also be dependent on the likelihood of discovering economically recoverable mineral reserves, which is influenced by many factors, as set out in note 10.

The directors prepare annual budgets and cash flow projections that extend beyond 12 months from the date of this report. These projections include the proceeds of future fundraising and planned discretionary project expenditures necessary to maintain the Company and Group as a going concern. Although the Company has been successful in raising finance in the past, there is no assurance that it will obtain adequate finance in the future. However, the directors have a reasonable expectation that they will secure additional funding when required to continue meeting mining, exploration costs and corporate overheads for the foreseeable future and therefore believe that the going concern basis is appropriate for the preparation of the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Companies Act s408 exemption

The Company has taken advantage of the exemptions allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements. The Group loss for the year included a loss on ordinary activities after tax of £377,567 (2008: loss of £319,319) in respect of the Company which is dealt with in the financial statements of the Company.

Standards, amendments and interpretations to published standards not yet effective.

At the date of authorisation of these consolidated financial statements, the IASB and IFRIC have issued the following standards and interpretations which are effective for annual accounting periods beginning on or after the stated effective date. These standards and interpretations are not effective for and have not been applied in the preparation of these consolidated financial statements:

- ~ IAS 1: Presentation of Financial Statements (Revised 2007) (effective as of 1 January 2009)
- ~ IAS 23: Borrowing Costs (Revised 2007) (effective as of 1 January 2009)
- ~ IAS 24: Related Party Disclosures . Revised definition of related parties (effective 1 January 2011 . not yet endorsed by the EU)
- ~ IAS 27: Consolidated and Separate Financial Statements (Amended) (effective as of 1 July 2009)
- ~ IAS 32: Financial Instruments: Presentation . Amendments relating to puttable instruments and obligations arising on liquidation, and Amendments relating to classification of rights issues (effective 1 January 2009 and 1 February 2010 respectively)
- ~ IAS 39: Financial Instruments: Recognition and Measurement . Amendments for eligible hedged items, and Amendments for embedded derivatives when reclassifying financial instruments (effective 1 July 2009 and annual periods ending on or after 30 June 2009 respectively).
- ~ IFRS 2: Share Based Payments: Vesting conditions and Cancellations (Amended) (effective as of 1 January 2009)
- ~ IFRS 2: Share-based payments . amendments relating to group cash-settled share based payment transactions (effective as of 1 January 2010 . not yet endorsed by the EU)
- ~ IFRS 3: Business Combinations (Revised) (effective as of 1 July 2009) includes an amendment to the treatment of minority interests (renamed non-controlling interests), amendments to the calculation of goodwill, a change to the method of accounting for acquisitions in stages, amendment to the accounting for contingent consideration and changes to the recognition and measurement of certain assets and liabilities
- ~ IFRS 7: Financial Instruments: Disclosures . Amendments enhancing disclosures about fair value and liquidity risk (effective 1 January 2009)
- ~ IFRS 8: Operating Segments (effective as of 1 January 2009)
- ~ IFRIC Interpretation 12: Service Concession Arrangements (effective as of 30 March 2009)
- ~ IFRIC Interpretation 13: Customer Loyalty Programmes (effective as of 21 December 2008)
- ~ IFRIC Interpretation 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective as of 21 December 2008)
- ~ IFRIC Interpretation 15: Agreements for the Construction of Real Estate (effective as of 27 July 2009)
- ~ IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective as of 9 June 2009)
- ~ IFRIC Interpretation 17: Distribution of Non-cash Assets to Owners (effective 1 December 2009)
- ~ IFRIC Interpretation 18: Transfers of Assets from Customers (effective 4 December 2009)
- ~ IFRIC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010 . not yet endorsed by the EU)
- ~ Amendments to IFRS1 and IAS27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009). These amendments are still to be endorsed by the EU

The directors anticipate that the adoption of these standards and interpretations will not have a material impact on the Group's financial statements in the period of initial adoption with the exception of IAS23: Borrowing Costs (Revised) which will require interest incurred in respect of long-term development projects to be capitalised within the relevant project. The adoption of IAS 1(Revised) and IFRS 8 are disclosure standards and that, whilst they will not result in any changes to the group or companies reported results, will change the presentation of the financial statements.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable in accordance with the group's principal activities, net of VAT and trade discounts.

Sales of minerals are recognised on delivery.

Group revenues in the year ended 30 September 2009 represented Commission income on trading fluorspar.

Intangible assets

Exploration and evaluation expenditure comprises costs which are directly attributable to the acquisition of exploration and mining licenses and subsequent exploration expenditures.

Exploration and evaluation expenditure is carried forward as an asset provided that one of the following conditions is met:

- (i) Such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale;
- (ii) Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves and active and significant operations in relation to the area are continuing, or planned for the future. Identifiable exploration and evaluation assets acquired are recognised as assets at their cost of acquisition. An impairment review is performed when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amounts. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined is met. Exploration rights are amortised over the useful economic life of the mine to which it relates, commencing when the asset is available for use.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is charged so as to write off the cost, less estimated residual value on assets other than land, over their estimated useful lives, using the reducing balance method, on the following bases:

Motor vehicles	straight line	3 years
Fixtures, fittings & equipment	straight line	2 years

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset. These are included in the income statement.

Investment in subsidiaries

The company's investment in subsidiary undertakings is shown at cost less any provisions for impairment.

Impairment of tangible and intangible assets excluding goodwill

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

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

If the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprises cash in hand and demand deposits.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

Share-based payments

All share based payments are accounted for in accordance with IFRS 2. Share-based payments+ The Group issues equity-settled share based payments in the form of share warrants to certain directors and employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is estimated using a binomial probability valuation model. The expected life used in the model has been adjusted, on the basis of management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

Any profit and loss charge in a period in respect of share-based payments is taken to the Group's reserves.

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

Foreign currencies

The financial information is presented in United Kingdom pounds sterling which is the functional currency of the group.

Monetary assets and liabilities denominated in foreign currencies in each company are translated at the rates of exchange prevailing at the accounting date. Transactions in foreign currencies are translated at the rate prevailing at the date of transaction.

On consolidation, revenues, costs and cash flows of undertakings abroad are included in the group income statement at average rates of exchange for the year. The assets and liabilities denominated in foreign currencies are translated into United Kingdom pounds sterling using rates of exchange ruling at the balance sheet date.

Exchange differences on the re-translation of opening net assets and results for the year of foreign subsidiary undertakings are dealt with through reserves net of differences on related foreign currency borrowings. Other gains and losses arising from foreign currency transactions, including trading, are included in the consolidated income statement.

Critical accounting judgements

In the process of applying the Group's accounting policies, which are described above, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial information:

- The valuation of warrants issued by the Company involves the application of judgement in determining the variables inputs to the valuation model. These variables are described in Note 20.
- The carrying value of intangible assets, and assessment thereof for impairment, involve the application of judgement in obtaining fair values. These are described in Note 10.

2. FINANCIAL RISKS

Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow risk), credit risk and liquidity risk. The group's overall risk management programme seeks to minimise potential adverse effects on the group's financial performance.

(a) Market risk

i. Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to the US dollar, Mongolian tugrug and United Kingdom pounds sterling. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

ii. Fair value interest rate risk and cash flow risk

The Group places surplus funds on short term deposit in sterling at the interest rate prevailing at that time. The Group's exposure to interest rate risks is immaterial.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as committed transactions. Management assess the other factors. Individual risk limits are set based on limits set by the board.

(c) Liquidity risk

The overriding financial risk to the company during the year was that of liquidity. At the current stage of the company's development its activities necessarily entail cash outflows rather than inflows; the company's major source of funds is likely to be through the injection of new equity capital or a debt facility, or a combination of such sources.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group is engaged in the acquisition, exploration, development, production of, and trading in, natural resources. To date its focus has been on a single resource . Fluorspar . in a single geographical location . Mongolia. The information presented for the purpose of resource allocation and assessment of segment performance is focused on resource projects in geographical locations and on the cost of corporate activities not directly attributable to resource projects in geographical locations. The reportable segments are therefore as follows:

- Mongolia, and
- Corporate activities in the UK

Geographical segmental information

An analysis of revenue is given below:

	2009	2008
	£	£
United Kingdom	-	-
Mongolia	23,949	-
	<u>23,949</u>	<u>-</u>

There is no material difference between turnover by origin and destination.
All revenue was generated by sales of Fluorspar to a single external customer.

An analysis of loss before tax is given below:

	2009	2008
	£	£
United Kingdom	(368,784)	(319,319)
Mongolia	(56,705)	(4,315)
	<u>(425,489)</u>	<u>(323,634)</u>

LOTUS RESOURCES PLC

Notes to the financial statements For the year ended 30 September 2009

An analysis of assets is given below:	2009	2008
	£	£
United Kingdom	38,949	400,797
Mongolia	227,094	15,662
	<u>266,043</u>	<u>416,459</u>

An analysis of liabilities is given below:	2009	2008
	£	£
United Kingdom	76,970	54,536
Mongolia	850	79
	<u>77,820</u>	<u>54,615</u>

Other information:

Capital additions:	2009	2008
	£	£
United Kingdom	-	851
Mongolia	187,077	9,912
	<u>187,077</u>	<u>10,763</u>

Depreciation and amortisation:	2009	2008
	£	£
United Kingdom	425	213
Mongolia	1,477	140
	<u>1,902</u>	<u>353</u>

4. LOSS FROM OPERATIONS

The loss from operations in the year to 30 September 2009 has been arrived at after charging the following amounts:

	2009	2008
	£	£
Depreciation of property, plant and equipment	1,902	353
Auditors remuneration:		
Audit services of annual accounts	4,000	3,000
Fees payable to the company's auditors and their associates for corporate finance and tax compliance services provided to the group	3,500	7,131
Share based payment	36,203	-
Net foreign exchanges losses	11,389	2,458

5. STAFF COSTS

Staff costs during the year amounted to:	2009	2008
	£	£
Wages and salaries	151,520	68,683
Social security	1,147	2,364
Other benefits	3,241	1,715
Share based payments	36,203	-
	<u>192,111</u>	<u>72,762</u>

LOTUS RESOURCES PLC

Notes to the financial statements For the year ended 30 September 2009

The average number of people employed by the group (including Directors) during the year was:

	2009 £	2008 £
Management and administration	5	3
Included within staff costs are directors emoluments amounting to:	2009 £	2008 £
Total remuneration	68,000	43,750
Share based payment	35,651	-
Other benefits	1,914	1,055
	<u>105,565</u>	<u>44,805</u>

6 INVESTMENT INCOME

	2009 £	2008 £
Interest on bank deposits	<u>1,974</u>	<u>2,939</u>

7 FINANCE COSTS

	2009 £	2008 £
Bank interest	<u>7</u>	<u>33</u>

8. TAXATION

	2009 £	2008 £
Current taxation		
- Current tax charge for the year	<u>-</u>	<u>-</u>
Deferred taxation		
- Current year (credit)	-	-
Total tax charge	<u>-</u>	<u>-</u>

A reconciliation between the accounting loss and the total taxation charge is as follows:

	2009 £	2008 £
Loss before taxation	<u>425,489</u>	<u>323,634</u>

LOTUS RESOURCES PLC

Notes to the financial statements For the year ended 30 September 2009

Loss multiplied by standard rate of corporation tax in the UK of 28% (2008: 28%)	119,137	90,618
Effect of:		
Permanent differences	(18,356)	(11,173)
Deferred tax assets not recognised	(93,041)	(78,326)
Effects of different tax rates of subsidiaries operating in other jurisdictions	(7,740)	(1,119)
Total tax charge for the year	<u>-</u>	<u>-</u>

The tax rate used for the reconciliation above is the corporate tax rate of 28% payable by corporate entities in the United Kingdom on taxable profits under tax law in that jurisdiction

9. LOSS PER SHARE

Basic loss per share	2009	2008
	£	£
Loss for the financial year	<u>(425,489)</u>	<u>(323,634)</u>
	2009	2008
	Number	Number
Weighted average number of common shares in issue during the year	<u>41,724,553</u>	<u>31,595,885</u>
Basic loss per share	<u>(1.02)p</u>	<u>(1.02)p</u>
Diluted loss per share	<u>(1.02)p</u>	<u>(1.02)p</u>

The basic earnings per share is based on the loss after taxation of £425,489 and on the weighted average number of shares in issue during the year of 41,724,553. Since the group was loss making in the current and prior year, the warrants in issue have no dilutive effect. Accordingly, the figures for the diluted earnings per share are the same as those for the basic earnings per share.

10. INTANGIBLE ASSETS: Exploration and evaluation expenditure

Group	£
Cost	
At 1 October 2008	-
Additions during the year	172,501
At 30 September 2009	<u>172,501</u>
At 30 September 2008	<u>-</u>

The net exchange differences arising on the translation of the intangible assets were not material.

Exploration and evaluation include the costs of acquiring mining and exploration rights, associated exploration and evaluation costs and other directly attributable project costs. This includes project staff costs, drilling and sample analysis costs, and the purchase and analysis of geological information. These assets have been assessed for impairment in accordance with the Group's accounting policies (Note 1) at 30 September 2009. No impairment has been identified.

On 29 January 2009 Lotus Bayalag Fluorspar LLC acquired an exploration licence in the Khenti area of Mongolia for £10,145 payable by the transfer of 350 shares in Lotus Bayalag Fluorspar LLC to

LOTUS RESOURCES PLC

Notes to the financial statements For the year ended 30 September 2009

O.Enkh-Onon representing 35% of the share capital of Lotus Bayalag Fluorspar LLC.

On 23 February 2009 Lotus Dai Uul LLC acquired an exploration licence in the Dornogobi area of Mongolia for £36,206 payable by the transfer of 490 shares in Lotus Dai Uul LLC to GXT LLC representing 49% of the share capital of Lotus Dai Uul LLC .

On 12 June 2009 Lotus Amgalan LLC acquired a mining licence in the Dornogobi area of Mongolia for £79,678 payable by the payment of £31,403 to Amguulan LLC and the transfer of 490 shares in Lotus Amgalan LLC to Amguulan LLC representing 49% of the share capital of Lotus Amgalan LLC .

The value of the exploration and mining licences acquired in the year ended 30 September 2009 was determined by the directors based on the aggregate of the fair value of equity interests in subsidiary undertakings transferred to minority interests and cash consideration paid in order to acquire the licences.

The ability of the Lotus Group to realise its investment in resource properties and exploration costs is contingent upon discovery of economically recoverable mineral reserves, the ongoing title to the resource properties, the ability of the Group to finance the ongoing development of the properties and on the future profitable production or proceeds from the properties. The success of the Group's mineral exploration properties is also influenced by legal and political risks and future commodity prices.

11 PROPERTY, PLANT AND EQUIPMENT

Group	Motor vehicles £	Fixtures, fittings & equipment £	Total £
Cost			
At 1 October 2007	-	-	-
Additions	9,371	1,392	10,763
At 1 October 2008	9,371	1,392	10,763
Additions	6,713	7,863	14,576
At 30 September 2009	16,084	9,255	25,339
Accumulated Depreciation			
At 1 October 2007	-	-	-
Charge for year	120	233	353
At 1 October 2008	120	233	353
Charge for the year	984	917	1,902
At 30 September 2009	1,104	1,150	2,254
Net book amount			
At 30 September 2009	14,980	8,105	23,085
At 30 September 2008	9,251	1,159	10,410

The net exchange differences arising on the translation of property, plant and equipment were not material.

LOTUS RESOURCES PLC

Notes to the financial statements
For the year ended 30 September 2009

Company	Fixtures, fittings & equipment £	Total £
Cost		
At 1 October 2007	-	-
Additions	<u>851</u>	<u>851</u>
At 1 October 2008	851	851
Additions	<u>-</u>	<u>-</u>
At 30 September 2009	<u>851</u>	<u>851</u>
Accumulated Depreciation		
At 1 October 2007	-	-
Charge for year	<u>213</u>	<u>213</u>
At 1 October 2008	213	213
Charge for the year	<u>425</u>	<u>425</u>
At 30 September 2009	<u>638</u>	<u>638</u>
Net book amount		
At 30 September 2009	<u>213</u>	<u>213</u>
At 30 September 2008	<u>638</u>	<u>638</u>

12. SUBSIDIARIES

Company	Shares in group undertaking £	Total £
At 1 October 2007	-	-
Additions	<u>5,569</u>	<u>5,569</u>
At 1 October 2008	5,569	5,569
Additions	<u>-</u>	<u>-</u>
At 30 September 2009	<u>5,569</u>	<u>5,569</u>

The above company comprises the wholly owned subsidiary undertaking, Lotus Minerals Mongolia Ltd, a company incorporated in Mongolia. Its principal activity is to identify and acquire mining and exploration rights in Mongolia.

LOTUS RESOURCES PLC

Notes to the financial statements For the year ended 30 September 2009

Name of subsidiary	Country of registration or incorporation	Shares held and voting power held by parent company	Shares held and voting power held by the group	Principal activity
Lotus Minerals Mongolia Limited	Mongolia	100% ordinary shares	-	Intermediate holding company
Lotus Amgalan LLC ¹	Mongolia	-	51% ordinary shares	Mining
Lotus Dai Uul LLC ¹	Mongolia	-	51% ordinary shares	Exploration
Lotus Fluorite LLC ¹	Mongolia	-	51% ordinary shares	Dormant
Lotus Bayalag Fluorspar LLC ¹	Mongolia	-	65% ordinary shares	Exploration
Lotus Resources (Jin Yi) Limited ²	Hong Kong	100% ordinary shares	-	Dormant
Lotus Resources (Jin Long) Limited ²	Hong Kong	100% ordinary shares	-	Dormant
Lotus Resources (Jin Yuan) Limited ²	Hong Kong	100% ordinary shares	-	Dormant

¹ Held via Lotus Minerals Mongolia Ltd

² Transferred out of the group after the balance sheet date (Note 23)

Lotus Bayalag Fluorspar LLC was formed on 10 November 2008 and 35% of the share capital was transferred to O.Enkh-Onon as detailed in note 10.

Lotus Dai Uul LLC was formed on 20 February 2009 and 49% of the share capital was transferred to GXT LLC as detailed in note 10

Lotus Amgalan LLC was formed on 10 June 2009 and 49% of the share capital was transferred to Amguulan LLC as detailed in note 10

All principal subsidiary undertakings operate in their country of incorporation.

The group consolidates its subsidiary activities. The accounting year-ends of the subsidiary undertakings consolidated in these financial statements are on 31 December 2009 in line with the statutory requirements in Mongolia. Additional financial statements are prepared for consolidation purposes, these taking into account all significant events and transactions arising between the reporting dates of the group and subsidiaries.

There are no significant restrictions on the ability of subsidiary undertakings to transfer funds to the parent, other than those imposed by the Companies Act 2006.

LOTUS RESOURCES PLC

**Notes to the financial statements
For the year ended 30 September 2009**

13. INTER-GROUP LOAN

	Company 2009 £	Company 2008 £
Amounts owed by group undertakings	<u>172,200</u>	<u>14,328</u>

Amounts owed by group undertakings are interest-free and have no stated date for repayment. The amounts are stated at fair value, based upon the directors' estimate of expected repayment and market interest rates.

14. TRADE AND OTHER RECEIVABLES

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Trade receivables	19,568	-	-	-
Other receivables	3,174	-	-	-
Prepayments and accrued income	4,014	3,791	10,359	10,359
	<u><u>26,756</u></u>	<u><u>3,791</u></u>	<u><u>10,359</u></u>	<u><u>10,359</u></u>

There are no trade or other receivables past their due date and the Directors consider that the carrying amount of trade and other receivables approximate their fair value. There were no provisions offset against trade receivables.

Trade receivables are subject to credit risk, see note 22.

15 DEFERRED TAXATION

Group - Unrecognised deferred taxation asset

At the balance sheet date the group has unused tax losses, as below, available for offset against future profits in the respective countries

Country	Unrelieved Tax losses 2009 £	Unrelieved Tax losses 2008 £
United Kingdom	312,038	279,416
Mongolia	56,496	4,315

There are no significant temporary differences. The realisation of a deferred tax asset is dependant on suitable taxable profits being made in future periods and at 30 September there is insufficient evidence that this asset is recoverable.

16 SHARE CAPITAL AND PREMIUM

Group and Company	2009 £	2008 £
Authorised:		
1,000,000,000 ordinary shares, £0.01 ordinary shares .		
Lotus Resources Plc	<u><u>10,000,000</u></u>	<u><u>10,000,000</u></u>

LOTUS RESOURCES PLC

Notes to the financial statements For the year ended 30 September 2009

Issued and fully paid:	Number	£
1 October 2007	21,967,413	219,674
Issued during the year		
Share placement	19,016,667	190,167
1 October 2008	40,984,080	409,841
Issued during the year		
Share placement	4,442,846	44,428
30 September 2009	45,426,926	454,269

On 18 October 2007, a placing of 1,250,000 new ordinary shares at 1p per share raised £12,500

On 19 November 2007, a placing of 7,500,000 new ordinary shares at 3p per share raised £225,000

On 24 April 2008, a placing of 3,500,000 new ordinary shares at 5.8p per share raised £203,000

On 30 April 2008, a placing of 100,000 new ordinary shares at 5.8p per share raised £5,800

On 9 July 2008, a placing of 1,500,000 new ordinary shares at 6p per share raised £90,000

On 13 July 2008, a placing of 4,166,666 new ordinary shares at 6p per share raised £250,000

On 11 August 2008, a placing of 1,000,000 new ordinary shares 6p per share raised £60,000

On 5 August 2009, a placing of 4,442,846 new ordinary shares at 3p per share raised £133,285

The details of share warrants granted are detailed in note 20 . %Share based payment+

17. MOVEMENTS IN EQUITY

Group	Share capital	Share premium	Retained earnings	Foreign currency translation reserve	Minority interest	Total
		£	£	£		£
1 October 2007	219,674	1,517	(228,806)	-		(7,615)
Shares issued (note 16)	190,167	663,758				853,925
Issue costs offset against share premium		(160,832)				(160,832)
Retained loss for year			(323,634)			(323,634)
1 October 2008	409,841	504,443	(552,440)	-	-	361,844
Shares issued (note 16)	44,428	88,858				133,286
Issue costs offset against share premium		(18,333)				(18,333)
Retained loss for year			(425,489)			(425,489)
Currency translation differences on foreign currency net investments				5,930		5,930
Share based payment			36,203			36,203
Total parent's shareholder equity	454,269	574,968	(941,726)	5,930		93,441
Acquisition, mining and exploration rights					94,782	94,782
30 September 2009	454,269	574,968	(941,726)	5,930	94,782	188,223

LOTUS RESOURCES PLC

Notes to the financial statements For the year ended 30 September 2009

Company	Share capital	Share premium £	Retained earnings £	Total £
1 October 2007	219,674	1,517	(228,806)	(7,615)
Shares issued (note 16)	190,167	663,758		853,925
Issue costs offset against share premium		(160,832)		(160,832)
Retained loss for year			(319,319)	(319,319)
1 October 2008	409,841	504,443	(548,125)	366,159
Shares issued (note 16)	44,428	88,858		133,286
Issue costs offset against share premium		(18,333)		(18,333)
Retained loss for year			(377,567)	(377,567)
Share based payment			36,203	36,203
30 September 2009	454,269	574,968	(889,489)	139,748

The share capital comprises the par value of the ordinary issued share capital of Lotus.

The share premium recognizes the excess over nominal value recognized on the issue of ordinary share capital in the Company.

Retained earnings comprise Lotus cumulative comprehensive loss since incorporation.

Foreign currency translation reserve comprises the cumulative differences on re-translation of opening net assets of foreign subsidiary undertakings recognized directly in equity.

Minority interests are as described in note 18.

18. MINORITY INTERESTS

Group

Cost

At 1 October 2008	-
Additions during the year	94,782
At 30 September 2009	94,782
At 30 September 2008	-

Minority interests represent capital introduced by minority shareholders in subsidiary undertakings in the form of exploration and/or mining licences at fair value. Further details of the licences are set out in note 10.

19. TRADE AND OTHER PAYABLES

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Current				
Trade payables	13,255	13,255	29,470	29,470
Other payables	1,411	1,438	3,180	3,101
Other taxation and social security	251	-	-	-
Accruals and deferred income	62,903	62,277	21,965	21,965
	77,820	76,970	54,615	54,536

The Directors consider that the net book amount of trade payables approximates to their fair value. All amounts included in trade and other payables are non-interest bearing and are not secured on the

assets of the group. All liabilities are due within one year.

20. SHARE-BASED PAYMENTS

Equity-settled share warrant scheme

The Group makes equity-settled share-based payments to employees and directors. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The Company issued 3,693,763 share warrants to directors and employees during the year ended 30 September 2009 with no share warrants having been issued to directors and employees in earlier years. The fair value of services received in return for share warrants is measured by reference to the fair value of share warrants granted. This estimate is based on a Black-Scholes model which is considered most appropriate considering the effects of the vesting conditions, expected exercise period and the dividend policy of the Company.

The input into the Black-Scholes model for the share warrants are as follows:

	2009
Weighted average share price	5p
Weighted average warrant exercise prices	9p
Expected volatility	63%
Expected option life	3 years
Risk-free rate	3.32%
Expected dividend yield	Nil

The calculation of the volatility of the share price was based on an average of similar early stage mining companies.

The weighted average fair value of share warrants granted was 0.0098p.

The number and weighted average exercise prices (WAEP+) of, and movements in, share warrants during the year were:

	2009		2008	
	Number	WAEP pence	Number	WAEP pence
1 October	18,195,000	3.0		
Granted during the year	<u>5,789,281</u>	<u>8.0</u>	<u>18,195,000</u>	<u>3.0</u>
30 September	<u>23,984,281</u>	<u>4.0</u>	<u>18,195,000</u>	<u>3.0</u>

The share warrants exercisable at 30 September 2009 have an exercise price in the range 3p to 15p and a weighted average contractual life of 5.7 years.

The share warrants issued to investors fall outside of the scope of IFRS 2.

There were no share warrants exercised during the year ended 30 September 2009.

LOTUS RESOURCES PLC

Notes to the financial statements For the year ended 30 September 2009

At 30 September 2009, exercisable share warrants totalled 23,984,281 as follows:

Date of Grant	Expiry date	Number of warrants granted	Exercise price per share	Held by	
				Directors and employees	Investors
21 December 2007	21 December 2010	18,195,000	3p	-	18,195,000
06 October 2008	30 September 2015	1,249,998	3p	916,666	333,332
06 October 2008	30 September 2015	1,500,000	10p	1,125,000	375,000
06 October 2008	30 September 2015	1,500,000	15p	1,125,000	375,000
26 February 2009	30 September 2015	8,333	3p	8,333	-
26 February 2009	30 September 2015	25,000	10p	25,000	-
26 February 2009	30 September 2015	25,000	15p	25,000	-
05 August 2009	05 August 2012	1,480,950	3p	468,754	1,012,196
		23,984,281		3,693,753	20,290,528

For the year ended 30 September 2009 the charge to the income statement was £36,203 (2008: nil).

21. NOTES TO THE CASH FLOW STATEMENT

Group

	2009 £	2008 £
Loss for the year	(425,489)	(323,634)
Income tax expense recognised in profit		
Investment income recognised in profit	(1,974)	(2,939)
Finance costs recognised in profit	7	33
Exchange rate movements	5,930	-
Depreciation of property, plant and equipment	1,899	353
Share based payment	36,203	-
Operating cash flows before movements in working capital	(383,424)	(326,187)
Increase in receivables	(16,398)	28,960
Increase in payables	23,206	(3,224)
Net cash flow from operating activities	(376,616)	(300,451)

Company

	2009 £	2008 £
Loss for the year	(377,567)	(319,319)
Income tax expense recognised in profit		
Investment income recognised in profit	(1,974)	(2,939)
Finance costs recognised in profit	7	33
Depreciation of property, plant and equipment	425	213
Share based payment	36,203	-
Operating cash flows before movements in working capital	(342,906)	(322,012)
Increase in receivables	(151,304)	14,632
Increase in payables	22,434	(3,305)
Net cash flow from operating activities	(471,776)	(310,685)

Major non-cash transactions

During the year the Group acquired a number of mining and exploration licences in exchange for shares as described in Note 10.

22. FINANCIAL INSTRUMENTS

The Group and Company's principal financial instruments comprise cash and cash equivalents, trade debtors and other receivables and trade and other payables. The Group and Company's accounting policies and methods adopted, including the criteria for recognition, the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are set out in note 1. The Group and Company do not use financial instruments for speculative purposes.

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

Group	2009	2008
	£	£
Loans and receivables		
Trade and other receivables	22,742	-
Cash and cash equivalents	43,701	395,690
Other Financial Liabilities	(14,917)	(32,653)
	<u>51,526</u>	<u>363,037</u>
Company	2009	2008
	£	£
Loans and receivables		
Trade and other receivables	-	-
Cash and cash equivalents	34,945	389,801
Other Financial Liabilities	(14,693)	(32,391)
Amounts owed by group undertakings	172,200	14,328
	<u>192,452</u>	<u>371,738</u>

Capital risk management

The Group and Company are currently financed solely through equity. It is the intention of the directors that the Group and Company will in future be financed by a mixture of debt and equity as appropriate to maintain a robust balance sheet to support its business and maximise shareholders value. Details of additional equity raised in the year are set out in note 16. In common with many early stage mining and exploration companies the Company raises finance for its activities in discrete tranches. Further funding is raised as and when required.

Derivatives, financial instruments and risk management

The Group does not use derivative instruments or other financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Liquidity Risk

Liquidity risk arises from the Group's and Company's management of working capital and the amount of funding committed to its exploration and mine development programmes. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the group and company arise in respect of the

ongoing exploration and mine development programmes, trade and other payables. Trade and other payables are all payable within six months.

As shown in the Directors Report the Company raised £114,963 after expenses through the issue of new equity capital during the year to 30 September 2009 and as shown in Note 26 raised £120,000 on 16 October 2009 and announced a further funding of £150,000 on 8 December 2009 and £600,000 on 10 February 2010 and will continue to raise funds to ensure that the Group has sufficient funds to continue with its ongoing operations.

The Board receives cash flow projections on a regular basis as well as information on cash balances.

Foreign currency risk management

The Group has transactional currency exposures. Such exposures arise from sales or purchases by its Mongolian subsidiaries in currencies other than the company's functional currency. The functional currency in Mongolia is Mongolian tugrug with a number of transactions undertaken in US dollars.

The Group does not enter into hedging positions in respect of its exposure to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets at 30 September 2009 are as follows:

	Assets	
	2009	2008
	£	£
US Dollars	<u>8,393</u>	<u>5,289</u>

The Company has no assets or liabilities denominated in a foreign currency.

Sensitivity analysis

A 10 per cent. strengthening, or weakening, of the above currency against Sterling, which the directors consider to be a reasonably possible change for the purpose of sensitivity analysis, would not have a material effect on both the Group's equity and loss on ordinary activities after tax for the years ended 30 September 2008 and 2009. This assumes that all other variables remained constant.

Interest rate risk

As the Group and Company are solely equity financed the only interest rate risk arises on cash balances. No sensitivity analysis has been presented as the effects of reasonably possible movements are not material.

Commodity price risk

The Group is exposed to the effect of fluctuations in the price of fluorspar which are quoted in US dollars. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of prices of this mineral. The Group did not generate any material revenues in the year ended 30 September 2009 and therefore fluctuations in the price of these minerals did not affect the results of the year.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and the Company. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group and Company's exposure and the credit ratings of its counterparties are monitored by the board of directors to ensure that the aggregate value of transactions is spread amongst approved counterparties.

The Group's principal financial assets are cash and cash equivalents, trade debtors and other accounts receivables. Cash equivalents include amounts held on deposit with financial institutions.

LOTUS RESOURCES PLC

Notes to the financial statements For the year ended 30 September 2009

The credit risk on liquid funds held in current accounts and available on demand is limited because the Group and Company's counterparties are mainly banks with high credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk at 30 September 2009 was £70,457 (2008: £406,049)

23. COMMITMENTS

Group

The Group had no capital commitments as at 30 September 2009 and 30 September 2008.

24. CONTINGENCIES

Group

The Group had no material contingent liabilities identified as at 30 September 2009 and 30 September 2008.

25. RELATED PARTY TRANSACTIONS

Graphicgrade Ltd provided bookkeeping and other administrative services to the company. Graphicgrade Ltd is related to the company as Mr J P Benson is a director and shareholder of Graphicgrade Ltd. For the year ended 30 September 2009 the charge to the income statement was £6,295 (2008: £4,783) and the amount owing at 30 September 2009 was £359 (2008: £661)

Key management personnel are considered to be the directors and their emoluments are included in note 5.

26. POST BALANCE SHEET EVENTS

On 16 October 2009 10,000,000 ordinary 1p shares were issued at 1p and 800,000 ordinary 1p shares were issued at 2.5p.

On 8 December 2009 the company entered into an agreement with Habsburg & Partner Advisory AG to raise up to £150,000. through the issue of 7,042,253 shares at 2.13p Habsburg & Partner Advisory AG has undertaken to make and settle payment of this amount within 30 days of the shares being received by the Subscriber. These funds which were due on 15th February have not been received.

On 8 December 2009 Lotus Resources plc placed 975,876 new ordinary shares at 2.13p per share, for a total of £20,786

On 25 December 2009 Lotus Resources plc, through its wholly owned subsidiary Lotus Minerals Mongolia LLC, acquired a further 15 per cent. of Lotus Bayalag LLC for consideration of £9,375, increasing its holding to 80 per cent.

On 28 December 2009 the Company's investments in three dormant subsidiaries, Lotus Resources (Jin Yi) Limited, Lotus Resources (Jin Long) Limited and Lotus Resources (Jin Yuan), were transferred to Simon Longworth at book value.

On 30 December 2009 Lotus Resources plc, through its wholly owned subsidiary Lotus Minerals Mongolia LLC, acquired a fluorspar mining licence at Tsagaan Chuluut for consideration of £43,750.

On 13th January 2010 Lotus Resources plc, through its wholly owned subsidiary Lotus Minerals Mongolia LLC, acquired the additional 49 per cent. of the issued share capital of Lotus Dai Uul LLC not already owned for £62,500.

On 10 February 2010 Lotus Resources plc placed 4,694,835 ordinary shares at 2.13 pence per share for a total of £100,000 together with the issue of of warrants over 14,084,505 Ordinary Shares of 1p each, exercisable as follows:

- 4,694,835 share warrants at 2.13p for up to one year from issue
- 4,694,835 share warrants at 3.2p for up to two years from issue
- 4,694,835 share warrants at 4.26p for up to three years from issue

On 10 February 2010 Lotus Resources plc raised £500,000 via a convertible secured loan note based on asset acquisition. The principal terms are:

Conversion of all of the loan notes into ordinary shares of 1p at the Holders option until 31 December 2013 at an exercise price of 2.5p per share

The Company may (subject to approval of the holders) repay the first £200,000 of the £500,000 loan note plus any accrued interest, in part or in full, for cash, up to the date of repayment, at any time after the second anniversary of issue

The issue on 31 December 2013 of up to 20,000,000 share warrants over ordinary shares at 4.26p exercisable for up to two years from issue.

10% interest per annum payable quarterly in arrears in cash or rolled up at the discretion of the holder;

Secured on plant and machinery of Lotus Minerals Mongolia LLC and its subsidiaries as assets are acquired.

27. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the first time the group has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with UK accounting standards.

There were no amendments to the income statement and cash flows for the year ended 30 September 2008 other than presentational changes. In addition, there were no amendments to the balance sheets as at 1 October 2007 or 30 September 2008 other than presentational changes.