ShalkiyaZinc N.V.

First Half Year Report 2011

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BUSINESS HIGHLIGHTS AND SIGNIFICANT EVENTS

The first half year of 2011 has been an extremely challenging and important period for ShalkiyaZinc N.V. During this period significant successes have been achieved.

Operations

Current status of operations

During the first half of 2011 ShalkiyaZinc N.V. (the "Company") and its subsidiary, LLP ShalkiyaZinc Ltd, (jointly – the "Group") continued to maintain safeguard of its main assets - the Shalkiya Mine (Mine) and the Kentau Processing Plant (Processing Plant). This work is carried out by a special unit. All buildings and facilities are maintained in good shape and well guarded ready to immediately recommence the work as soon as market conditions improve. Mine shaft waters are permanently pumped out along with maintenance of vehicular and fixed equipment of the Mine and the Processing Plant. Railway unit of the Mine continues to render services on transportation of construction raw materials produced by the nearby plants. Total number of employees of the company is 130 people.

Restoration of the subsoil use contract

On 4 March 2009, the Shalkiya and Talap Subsurface Use Contracts were terminated by the MEMR. On 1 June 2010, the Specialized Interregional Court of Astana city determined that termination of the Shalkiya and Talap Subsurface Use Contracts was not legal and reversed the termination of the Shalkiya and Talap Subsurface Use Contracts. Following the court decision, the MINT restored the Group's right under the both subsoil use contracts on 7 July 2010.

Strategic investor

During 2010, the Group has been in negotiations with SAT&Company JSC(hereinafter "SAT"), a Kazakhstan industrial holding group engaged in the metallurgy and petrochemical industries. On 17 September 2010, the shareholders of the Group approved the proposed conditional capital investment by SAT of US$ 50 million in ShalkiyaZinc N.V. in return for an equity interest equal up to 81.39% of the enlarged issued share capital of the Group.

On 18 January 2011, SAT has formally completed acquisition of newly issued ordinary shares of ShalkiyaZinc N.V. for a total consideration of US $50 million. In addition, SAT has made a mandatory cash offer for minority shareholders pursuant to UK takeover code. As a result of mandatory cash offer SAT became a holder of 84.3% interest in the Company.

Restructure and the repayment of the bank borrowings

On 30 June 2011 the Group has completed the restructuring of the bank borrowing and repaid its debt to bank in full. As a result of the restructuring the Group was granted with favourable terms. In particular, interest rate was decreased from 16% to 7.5% per annum, retrospectively, resulting in gain on restructuring recognized in profit and losses of the Group.

Financial

During the first half year of 2011, the Group reported a net income of US $4.9 mln, which mainly explained by the recognition of significant other income related to the restructuring of the borrowings.

Furthermore the SAT has accepted accounts payable of ShalkiyaZinc Ltd. to Atlas Copco Customer Finance AB in amount of US $3.64 million.

Fiscal regime

One of the most significant changes in subsurface users' tax legislation became the change in the tax rate including the one on extraction of mineral resources as per Tax Code of the Republic of Kazakhstan effective January 1, 2010. Under the law tax rates for zinc and lead production are 7% and 8% respectively effective from 1 January 2010 until 31 December 2012 and 8% and 8.25%, respectively from 1 January 2013.

Outlook

The main strategy of the Company is to implement its investment program by way of constructing the New Processing Plant with a capacity of 4mtpa. The capital investment completed by SAT in the amount of US $50 mln is not sufficient to complete the investment program. By the end of 2011, the Company plans to secure financing required to execute the strategy of the Group.

Despite suspension of production continued during the six months of 2011 the Company strongly believes that production assets of the Company, considerable investments during the past periods, and extraordinary large reserves will ensure implementation of its investment program. In this connection, the Company plans to secure additional financing by the end of 2011 either from private placement or debt financing. The strategy for the period up to 2014 developed jointly with international consultants will allow ShalkiyaZinc to become a competitive mining and processing company with an output capacity of 50,000 tonnes of zinc in zinc concentrate. Further upon expected completion of the second stage of construction of the New Processing Plant in 2015 the Company plans to achieve an output of more than 110,000 tones of zinc in zinc concentrate.

All this makes us confident that with the cessation of crisis and activization of markets in the near future investment of project on creation of vertical-integrated mining and smelting plant at Shalkiya Deposit will be recommenced.

Taking this opportunity I would like to express my gratitude to everyone who during such a difficult period for us worked for the purpose of achieving the long-term plans of the Company.

I would also like to thank our shareholders for the continuous support.

Alken Kuanbay
Executive Director
ShalkiyaZinc N.V.

BUSINESS REVIEW

The Group's main activities are exploration, extraction and processing of complex lead-zinc ore in the Shalkiya field, located in the Zhanakorgan area of the Kyzyl-Orda region of the Republic of Kazakhstan. The Subsidiary's activities are regulated in accordance with the contract concluded between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and the Subsidiary dated 31 May 2002 for the extraction of complex ore in the Shalkiya field from 2002 to 2046 (the "Shalkiya Subsurface Use Contract").

In November 2008 due to decline in the world market prices on the Group's products caused by world economic recession the Subsidiary suspended its production activities. As of the date of this annual report production activities were not resumed.

In December 2004, the Subsidiary entered into a subsurface use contract with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan for the exploration and extraction of complex ore in the Talap field (the "Talap Subsurface Use Contract"). The term of the Talap Subsurface Use Contract is 20 years

Assets

The Company is opportunely in proximity to the major zinc consuming markets of Asia, China and Russia.

The Company operates in southern Kazakhstan and the Company's main assets are currently:

- the Shalkiya mine: this underground mine in the Kyzylorda region is the Company's key asset, representing 30% of zinc reserves in Kazakhstan;
- the Kentau processing plant: a zinc-lead ore processing plant near the town of Kentau in the southern Kazakhstan region.
- the Talap Deposit: a zinc-lead ore deposit 30 kilometres south-west of the Mine;

<u>Shalkiya Mine</u>

The Mine is located in the territory of the Zhanakorgan district of Kyzylorda oblast of the Republic of Kazakhstan. The site of Shalkiya is situated in flat terrain with some decline to the west in the direction to the river Syr Darya. Local vegetation is mostly steppe grass and nanophanerophyte. Water from Syr Darya River is extensively used in local agriculture.

The Company has made a great effort to keep existing workings, pit heads and structures, and mining equipment in a good technical condition ready for production to be resumed at the Mine. At present the personnel at the Mine consists of 82 workers.

The Mine has a well developed infrastructure for the implementation of the New Plant. The Mine is 15 kilometres north-west from Zhanakorgan settlement in Kyzyl-Orda Region in the south of the Republic of Kazakhstan. The regional centre Zhanakorgan is connected by roads and railways with the rest of the territory of the Republic of Kazakhstan, through Shymkent city – with Uzbekistan and China and through Kyzyl-Orda – with Russia.

<u>Kentau Processing Plant</u>

Modernization of the concentrator was completed by the Company in 2008. The replacement of worn out flotation machines and pumps allowed the Company to increase the output capacity from 0,6 mpta to 1.5 mtpa.

Until the new Plant is operational the ore from the Mine can be processed at the Kentau Processing Plant at any time when world prices on zinc and lead concentrates will increase to the favourable levels. For this purpose of all the Company's existing assets, at both sites, are maintained in a working condition despite suspension of the plant. All of the Kentau Plant's workshops are sealed and are guarded by a special security team, consisting of 31 workers.

FINANCIAL REVIEW

The interim condensed consolidated financial statements for the first half year of 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union. The condensed interim consolidated financial statements and notes on pages 9 through 22 should be read in conjunction with this review which has been included to assist the understanding of the Group's financial position at 30 June 2011 and results of operations for the period then ended.

Summary

During first half year of 2011, the Group reported a net income in amount of US $4.9 million. As at 30 June 2011 the Group's accumulated deficit amounted to US $76 million and Group's liabilities amounted to US $18.3 million.

Income statement

During first half year of 2011, the Group reported a net income in amount of US $4.9 million comparing to net loss of $4.3 million for the first half year of 2010. Such significant change is explained mainly by:

1) Restructuring of the Group's borrowings in the first half of 2011 which resulted in significant gain on restructuring recorded in the first half of 2011 in amount of US $6.9
2) net foreign exchange loss of US $0.2 million incurred during six month period ended 30 June 2011 against foreign exchange gain of US $0.85 million incurred during six month period ended 30 June 2010. The change is mainly due to decrease of Group's liabilities denominated in foreign currency.
3) decrease in general and administrative expenses by US $0.7 million in the first half of 2011 comparing to first half of 2010.

General and administrative expenses decreased to US $1.9 million (HY 2010: US $2.6 million) or by US $0.7 million (36%), mainly due to (i) decrease of depreciation expenses by US $0.3; (ii) decrease in payroll expenses by US $0.3; (iii) decrease in exploration costs by US $0.3.

During first half year of 2011, the Group incurred finance costs of US $1.6 million (HY 2010: US $2.3 million) relating to borrowings from BTA Bank JSC.

Financial position

During first half year of 2011 total assets have increased by US $15 million and amounted to US $54.5 million. This is mainly due to completion of acquisition of newly issued ordinary shares of ShalkiyaZinc N.V. for a total consideration of US $50 million.

As at 30 June 2011, accumulated deficit decreased by US $4.9 million due to facts described in "income statement" section.

During first half year of 2011, total liabilities decreased by US $39.9 million (-356%) from US $58.2 million at 31 December 2011 to US $18.3 million at 30 June 2011, respectively. This is mainly due to (i) repayment of the borrowings from BTA Bank JSC in amount of US $31 million and retrospective write-off of accrued interests of US $5.4 as a result of restructuring; (ii) decrease in trade and other payables by US $6.9 explained by the transfer of debt on Atlas Copco to SAT and repayment of accrued commission on letter of credit.

RISKS, UNCERTAINTIES AND INTERNAL CONTROL

The Board continually assesses and monitors the key risks of the business. The principal risks and uncertainties that could have a material impact on the Group's performance over the remainder of the financial year have not changed from those which are set out in the Group's 2010 Annual Report.

The Board continually assesses and monitors the key risks of the business. In accordance with Dutch Financial Markets Supervision Act (Wet op het financieel toezicht), section 5:25d, paragraph 8, we summarize below the principal risks that could have a material impact on our business in the first half year of 2011:

- The majority of the Group’s assets are located in Kazakhstan, which has a legal and regulatory regime that differs in some respects from legal and regulatory regimes in other countries.
- Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s long-term borrowings with floating interest rates. The Group did not have significant borrowings with floating interest rate.
- Companies engaged in zinc and lead mining activities face certain risks related to their operations (including their exploration and development activities), which may have an adverse effect on their business, operating results and financial condition. As 90% of the Company’s revenue is derived from the sale of zinc concentrate, the price of zinc has a significant impact on the Group’s operating results. The prices of both zinc and lead may vary significantly, due to a number of factors outside the Company’s control. The Group has historically not hedged its exposure to the risk of fluctuations in the price of its products.
- As a result of significant borrowings, accounts payable, dues to the Republic of Kazakhstan and cash and cash equivalents denominated in various currencies, the Group’s consolidated statement of financial position can be affected significantly by movement in exchange rates. The Group does not hedge its foreign currency risks.
- The Group endeavors to trade only with recognized, creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group’s exposure to bad debts is not significant. With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents the Company’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Internal Control System at ShalkiyaZinc has developed with the objective of supporting the efficient performance of the Group by:

- improving the efficiency and effectiveness of operations;
- optimising the activities of the Group and its management bodies;
- ensuring the adequacy and timeliness of financial and administrative information and reporting;
- minimizing internal and external risks;
- ensuring compliance with legal requirements and standards regulating the activity of ShalkiyaZinc;
- improving the management of assets and liabilities; and
- ensuring the safety of ShalkiyaZinc’s assets.

The Group’s head-office holds monthly meetings with the management of each of its operating units during which operating performance is reviewed.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In accordance with the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht), section 5:25d, paragraph 2 sub c, we confirm that, to the best of our knowledge:

- the condensed interim consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 (Interim Financial Reporting)as adopted by the European Union and give a true and fair view of the assets, the liabilities, the financial position and the profits or the loss of ShalkiyaZinc NV and its consolidated companies (jointly referred to as the Group); and

- the interim management report for the six months ended 30 June 2011 gives a true and fair view of the state of affairs as at 30 June 2011, the course of business during the six months period ended 30 June 2011 of the Group and the expected course of business, whereby, insofar as weighty interests do not oppose this, special attention is paid to the investments and the circumstances on which the development of turnover and profitability depend.

On behalf of the Group:

Alken Kuanbay
Executive Director of ShalkiyaZinc N.V.

20 January 2012

Disclaimer

This statement may contain forward-looking statements concerning the financial condition and results of operations of the Group. Forward-looking statements are statements of future expectations that are based on the management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. No assurances can be given as to future results, levels of activity and achievements and actual results, levels of activity and achievements may differ materially from those expressed or implied by any forward-looking statements contained in this report. The Company does not undertake any obligation to update publicly or revise any forward-looking statement as a result of new information, future events or other information.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2011

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ShalkiyaZinc N.V.
Interim Condensed Consolidated Statement of Comprehensive Income

In thousands of USD

	Notes	6 months ended 30-Jun-2011 (unaudited)	6 months ended 30-Jun-2010 (unaudited)
Revenue		–	–
Cost of Sales		–	–
Gross Profit		–	–
General and administrative expenses	5	(1,947)	(2,649)
Finance costs	6	(1,641)	(2,464)
Foreign exchange (loss)/gain		(221)	850
Other income/expenses	8	8,705	(219)
Income/(loss) before tax		**4,896**	**(4,482)**
Income tax expense		–	206
Income/(loss) for the period		**4,896**	**(4,276)**
Other comprehensive (loss)/ income			
Exchange differences on translation to presentation currency		(19)	38
Other comprehensive (loss)/income , net of income tax		**(19)**	**38**
Total comprehensive income/(loss) for the period, net of income tax		**4,877**	**(4,238)**
Basic and diluted earning/(loss) per share from continuing operations, US cents	10	**16.12**	**(75.68)**

The notes on pages 13 to 21 form an integral part of these interim condensed consolidated financial statements

ShalkiyaZinc N.V.
Interim Condensed Consolidated Statement of Financial Position

In thousands of USD

	Notes	30-Jun-2011 (unaudited)	31-Dec-2010 (unaudited)
ASSETS			
Non-current assets			
Property, plant and equipment		28,531	29,003
Long-term portion of VAT receivable		2,385	2,367
Prepayments for non-current assets		3,354	3,357
Long-term inventories		1,265	1,255
Deferred tax asset		2,377	2,359
		37,912	**38,341**
Current assets			
Advance to related party	15	15,526	–
VAT receivable		265	257
Inventories		510	532
Other receivables		111	91
Prepayments		41	58
Prepaid income tax		13	–
Cash and cash equivalents	9	162	300
		16,628	**1,238**
TOTAL ASSETS		**54,540**	**39,579**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	10		
Share capital		413	83
Share premium		111,834	62,164
Cumulative currency translation reserve		17	36
Accumulated deficit		(76,045)	(80,941)
		36,219	**(18,658)**
Non-current liabilities			
Provision for future site restoration		5,659	5,615
Due to the Republic of Kazakhstan		1,452	1,440
		7,111	**7,055**
Current liabilities			
Trade and other payables	12	6,356	13,302
Due to SAT	15	4,183	2,205
Bank borrowings	11	–	34,790
Tax payable other than income tax		25	69
Income tax payable		–	100
Advances received		646	716
		11,210	**51,182**
TOTAL EQUITY AND LIABILITIES		**54,540**	**39,579**

The notes on pages 13 to 21 form an integral part of these interim condensed consolidated financial statements

ShalkiyaZinc N.V.
Interim Condensed Consolidated statement of cash flows

In thousands of USD

	Notes	6 months ended 30-Jun-2011 (unaudited)	6 months ended 30-Jun- 2010 (unaudited)
Cash flows from operating activities			
Loss before income tax		4,896	(4,482)
Adjustments for:			
Depreciation of property, plant and equipment	5	691	1,081
Losses less gains on disposal of property, plant and equipment		(129)	28
Interest expense on bank borrowings	6	1,641	2,464
Write-off of interests as a result of restructuring	11	(5,405)	–
Foreign exchange loss		40	(850)
Write down to net realizable value and provision for obsolete inventory		–	29
Reversal of provision for other receivables and prepayments		–	(41)
Translation adjustment		(38)	–
Operating cash flow before working capital changes		**1,696**	**(1,771)**
Change in advances to related party	15	(15,526)	–
Change in other receivables		(19)	185
Change in inventories		26	532
Change in VAT receivable		(5)	915
Change in prepayments		17	358
Change in trade and other payables	12	(7,062)	105
Change in taxes payable		(158)	(83)
Change in advances received		(76)	64
Cash (used in)/generated from operating activities		**(21,107)**	**305**
Income tax paid		–	(147)
Net cash (used in)/generated from operating activities		**(21,107)**	**158**
Cash flows from investing activities			
Purchase of property, plant and equipment		(10)	–
Change in prepayments for non-current assets		29	–
Proceeds from sales of property, plant and equipment		–	39
Net cash from investing activities		**19**	**39**
Cash flows from financing activities			
Proceeds from issuance of shares		50,000	–
Repayment of bank borrowings	11	(31,066)	–
Proceeds from borrowings from SAT	15	2,016	–
Net cash from financing activities		**20,950**	**–**
Net (decrease)/ increase in cash and cash equivalents		**(138)**	**197**
Effect of exchange rate changes on cash and cash equivalents		–	1
Cash and cash equivalents at the beginning of the year	9	300	57
Cash and cash equivalents at the end of the year	**9**	**162**	**255**

The notes on pages 13 to 21 form an integral part of these interim condensed consolidated financial statements

ShalkiyaZinc N.V.
Interim Condensed Consolidated Statement of changes in equity

In thousands of USD

	Share capital	Share premium	Cumulative currency translation reserve	Accumulated deficit	Total
At 1 January 2010	83	62,164	769	(66,968)	(3,952)
Loss for the year	–	–	–	(13,973)	(13,973)
Other comprehensive loss	–	–	(733)	–	(733)
Balance at 31 December 2010	**83**	**62,164**	**36**	**(80,941)**	**(18,658)**
Issuance of shares	330	49,670	–	–	50,000
Income for the year	–	–	–		
Other comprehensive loss	–	–	(19)	4,896	4,877
Balance at 30 June 2011	**413**	**111,834**	**17**	**(76,045)**	**36,219**

The notes on pages 13 to 21 form an integral part of these interim condensed consolidated financial statements

1. CORPORATE INFORMATION

ShalkiyaZinc N.V. (the "Company" or "ShalkiyaZinc N.V."), a public limited liability company, was incorporated on 6 November 2006 under the laws of the Netherlands. The address of its registered office is Martinus Nijhofflaan 2, 2624 ES Delft, the Netherlands.

The Company is the sole shareholder of LLP ShalkiyaZinc Ltd ("LLP ShalkiyaZinc Ltd" or the "Subsidiary"). The Company and its Subsidiary together are further referred to as the Group.

The Company became listed on 14 December 2006 on the London Stock Exchange by issuing Global Depository Receipts (GDRs).

In September 2010, the Group signed an investment agreement with SAT & Company JSC ("SAT"), incorporated in the Republic of Kazakhstan, under which SAT acquires controlling stock in ShalkiyaZinc N.V. through issuance of 24,715,769 shares (81.39%) in ShalkiyaZinc N.V. in return for a capital investment of USD 50 million into ShalkiyaZinc Ltd. SAT obtained control over the Group on December 27, 2010 following receipt of a waiver from the government of its statutory right of pre-emption over transfer of the subsoil use interest. SAT is ultimately controlled by Mr. Rakishev.

Upon completion of transaction, SAT became the legal owner of 24,715,769 shares (81.39%) of Shalkiya Zinc N.V. in return for a capital investment of USD 50 million into ShalkiyaZinc Ltd. In addition, SAT has made mandatory cash offer for minority shareholders pursuant to UK takeover code. As a result of mandatory cash offer, SAT became a holder of 84.3% interest in the Company. The new shareholders structure is as follows:

Ultimate shareholders	Number of shares	Percentage of the Company's share capital
SAT	25,591,327	84.28%
Former management	1,388,199	4.58%
Other significant shareholders	2,818,465	9.28%
Freefloat in the form of GDRs	566,778	1.86%

The Group's main activities are exploration, extraction and processing of complex lead-zinc ore in the Shalkiya field, located in the Zhanakorgan area of the Kyzyl-Orda region of the Republic of Kazakhstan. The Subsidiary's activities are regulated in accordance with the contract concluded between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and the Subsidiary dated 31 May 2002 for the extraction of complex ore in the Shalkiya field from 2002 to 2046 (the "Shalkiya Subsurface Use Contract").

In November 2008, due to decline in the world market prices on the Group's products caused by world economic recession the Subsidiary suspended its production activities. As of the date of authorization of these interim condensed consolidated financial statements production activities were not resumed.

In December 2004, the Subsidiary entered into a subsurface use contract with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan for the exploration and extraction of complex ore in the Talap field (the "Talap Subsurface Use Contract"). The term of the Talap Subsurface Use Contract is 20 years.

These condensed interim consolidated financial statements were authorised for issue on 20 January 2012 by the Company's Board of Directors.

2. BASIS FOR PREPARATION

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2010 and for the year then ended.

Functional and presentation currency

The functional currency of the Company and the Subsidiary is the Kazakhstani Tenge ("Tenge"). The Group has chosen to present its consolidated financial statements in USD.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations endorsed by the European Union and in effect as at 1 January 2011 noted below.

4. NEW ACCOUNTING PRONOUNCEMENTS

(a) Standards effective for annual periods beginning on or after 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010).

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010).

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's condensed interim consolidated financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted, but relevant for the Group's operations:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

4. NEW ACCOUNTING PRONOUNCEMENTS (continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was early adopted by the Group); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS (continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted, but not relevant for the Group's operations:

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual *periods beginning on or after 1 February 2010).*

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011).

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).

IFRS 13, Fair value measurement (issued in May 2011 and effective for accounting periods beginning on or after 1 January 2013. Earlier application is permitted).

IAS 27, Separate financial statements, IAS 28, Investments in associates and joint ventures, IFRS 10, Consolidated financial statements, IFRS 11, Joint arrangements, IFRS 12, Disclosure of interests in other entities (issued in May 2011 and effective for accounting periods beginning on or after 1 January 2013. Earlier application is permitted if some/all of the entire package of standards are adopted at the same time).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

5. GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended	
(In USD thousands)	**30-Jun-2011 (unaudited)**	**30-Jun-2010 (unaudited)**
Depreciation	691	1,081
Payroll and salary taxes	441	687
Consulting services	425	266
Fines and penalties	49	261
Provision for unused vacation	45	–
Materials	34	24
Rent	22	40
Maintenance costs	117	–
Bank charges	8	–
Communication	7	10
Exploration works	–	279
Write down to net realizable value and provision for obsolete inventory	–	29
Reversal of doubtful debts	–	(41)
Other	108	13
	1,947	**2,649**

6. FINANCE COSTS

	For the six months ended	
(In USD thousands)	**30-Jun-2011 (unaudited)**	**30-Jun-2010 (unaudited)**
Interest expense	1,641	2,296
Unwinding of discount on provision for future site restoration	–	84
Unwinding of discount on due to the Republic of Kazakhstan	–	84
	1,641	**2,464**

7. INCOME TAX

Income tax (benefit) / expense comprised the following:

	For the six months ended	
(In USD thousands)	**30-Jun-2011 (unaudited)**	**30-Jun-2010 (unaudited)**
Current income tax expense	–	24
Deferred income tax (benefit) / expense	–	(230)
	–	**(206)**

The entities based in Kazakhstan are subject to income tax on taxable profit as determined under the laws of the Republic of Kazakhstan. The income tax rate was 20% in both 2010 and 2009. In November 2009, an amendment to the corporate income tax rate reducing schedule was enacted to reduce the corporate income tax rate to 17.5% effective from 1 January, 2013 and 15% effective from 1 January 2014. However, during 2010 changes occurred and the rate was fixed at 20% from 1 January 2011 and for subsequent years.

8. OTHER INCOME AND EXPENSES

During the 6 months ended June 30, 2011 the Group completed restructuring of the bank borrowings and repaid its debt to bank in full. As a result of the restructuring the Group was granted with favourable terms. In particular, interest rate was decreased from 16% to 7.5% per annum, retrospectively, resulting in gain on restructuring in amount of US $6.9.

9. CASH AND CASH EQUIVALENTS

(In USD thousands)	**30-Jun-2011 (unaudited)**	**31-Dec-2010 (audited)**
Cash in banks, KZT denominated	136	263
Cash in banks, EUR denominated	21	7
Cash in banks, USD denominated	4	5
Cash on hand, KZT denominated	1	25
	162	**300**

10. EQUITY

During 2011 SAT has purchased the 24,715,769 newly issued ordinary shares of ShalkiyaZinc N.V.

The authorized share capital of ShalkiyaZinc N.V. is EUR 1,500,000, divided into 150,000,000 shares each with a nominal value of EUR 0.01 per share. The issued share capital of ShalkiyaZinc N.V. is EUR 303,658 divided into 30,365,769 shares each with a nominal value of EUR 0.01 per share, equivalent to USD 412,747 at an exchange rate of USD 1.359.

According to the Company's Articles of Association, the Company's reserves may be distributed to shareholders, provided that total shareholders' equity exceeds the called-up and paid-up capital and legal reserves of the Company.

Foreign currency translation reserve

Foreign currency translation reserve is used to record exchange differences arising from the translation of the consolidated financial statements from functional currency into presentation currency. Foreign currency translation reserve is non-distributable legal reserve.

Income and loss per share

The numerator for the calculation of the basic earning/loss per share for the period ended 30 June 2011 is the income after tax of USD 4,896 thousand (HY 2010: USD (4,276) thousand) and the denominator for the calculation of the basic earning/loss per share is 30,365,769 and 5,650,000, respectively.

	For the six months ended	
	30-Jun-2011 (unaudited)	**30-Jun-2010 (unaudited)**
Income/(loss) per share, *in US cents*	16.12	(75.68)
Diluted income/(loss) per share, *in US cents*	16.12	(75.68)
Income/(loss) attributable to ordinary shareholders, in thousands of USD	4,896	(4,276)
Issued ordinary shares at the end of the period	30,365,769	5,650,000

11. BANK BORROWINGS

(In USD thousands)	**30-Jun-2011 (unaudited)**	**31-Dec-2011 (audited)**
Opening balance	34,790	31,088
Interest charged for the period	1,641	3,654
Foreign exchange difference	40	(158)
Repayments over the period	(31,066)	–
Gain on restructuring	(5,405)	–
Translation difference	–	206
Closing balance	**–**	**34,790**

On 30 June 2011, the Group has completed the restructuring of its loans to BTA Bank. As a result of restructuring the Group was granted with favourable terms. In particular, interest rate was decreased from 16% to 7.5% per annum, retrospectively. Following debt restructuring referred to above, the Group has repaid its debt to BTA Bank in full.

12. TRADE AND OTHER PAYABLES

In thousands of USD	**30-Jun-2011 (unaudited)**	**31-Dec-2011 (audited)**
Trade payables for services	2,583	3,624
Trade payables for purchased property, plant and equipment	487	5,371
Other	3	41
Total financial payables	**3,073**	**9,036**
Accrued expenses	2,895	4,016
Payables to employees	236	244
Other	152	6
	6,356	**13,302**
Classified as:		
Non-current	–	–
Current	6,356	13,302
	6,356	**13,302**

At 31 December financial payables were denominated in various currencies as follows:

In thousands of USD	**30-Jun-2011 (unaudited)**	**31-Dec-2011 (audited)**
US Dollar	1,079	4,632
Euro	170	1,175
Tenge	1,824	3,229
	3,073	**9,036**

During the first half year of 2011 SAT has accepted accounts payable of ShalkiyaZinc Ltd. to Atlas Copco Customer Finance AB in amount of US $3.84 million.

13. COMMITMENTS AND CONTINGENCIES

Training

Pursuant to the Talap Subsurface Use Contract, the Group is obliged to finance the professional training of the Kazakhstani staff for not less than 1% of operating costs during the production period. Management believes that as at 30 June 2011 the Group fully complies with Kazakhstani personnel training requirements.

Liquidation fund

Pursuant to the Shalkiya Subsurface Use Contract, the Group is obliged to accumulate cash on a special bank account in the amount of not less than 1% of operating costs to fund future site restoration costs related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage.

Pursuant to the Talap Subsurface Use Contract, the Group is obliged to accumulate cash in a special bank account in the amount of not less than 1% of exploration and operating costs (capped at USD 7,767 thousand) to fund future site restoration costs related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage.

At 30 June 2011, the Group was not in compliance with the liquidation fund commitment. However, Group's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Group's financial position and results of operations.

Insurance

The insurance industry in the Republic of Kazakhstan is in the process of development, and many forms of insurance coverage common in development markets are not yet generally available. The Group does not have full coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations.

Taxation

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

The Company's management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. In management's view, no material losses will be incurred in respect of existing and potential tax claims.

Legal claims

The Group is subject to various legal proceedings related to business operations, such as property damage claims. The Group's management does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations. The Group assesses the likelihood of material liabilities and makes provisions in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated.

14. COMMITMENTS AND CONTINGENCIES

On 4 March 2009, the Shalkiya and Talap Subsurface Use Contracts were terminated by the MEMR accusing the Group with illegal IPO in December 2006. The issue was that in accordance with the Kazakhstani legislation the Government of the Republic of Kazakhstan has the priority right to purchase shares of the Group in cases of their sale or additional issuance. In other cases, the subsurface users have to obtain a confirmation from the MEMR on waiving its rights. The Group's position is that appropriate letters-requests were filed with the MEMR and in the absence of any objections from the MEMR within 45 days, it was legally presumed that the waiver has been obtained. Following reorganization of MEMR into MINT in March 2010, the Group applied to the court regarding termination of the Shalkiya and Talap Subsurface Use Contracts. On 1 June 2010, the Specialized Interregional Court of Astana city determined that termination of the Shalkiya and Talap Subsurface Use Contracts was illegal and reversed the termination of the Shalkiya and Talap Subsurface Use Contracts. Following the decision of the Court, the MINT restored Group's right under the both subsoil use contracts on 7 July 2010.

15. RELATED PARTY TRANSACTIONS

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates. The Company's ultimate controlling party is disclosed in Note 1.

<u>Compensation of key management personnel</u>

Key management personnel comprise members of the Group's management and members of management Board, totaling six persons at 30 June 2011 (31 December 2010: four persons). Compensation to key management personnel consists of short-term employee benefits. Since the Company does not pay social securities or pensions, all salary payments are considered as short-term employee benefits. Total compensation paid to key management personnel amounted to USD 97 thousand as at 30 June 2011(31 December 2010: USD 528 thousand).

<u>Financial aid from SAT</u>

During the first half year of 2011 the Group received the financial aid from SAT in the amount of USD 1,978 thousands. Borrowings from SAT are due on demand.

<u>Advances to related party</u>

Advances to related party as at 30 June 2011 represent the advances given to SAT under the cooperation agreement. Under the terms of aforementioned agreement the Group transfers its proceeds from issuance of shares to SAT and on the other hand SAT facilitates the restructuring of Group's borrowings and repays or accepts the outstanding debt of the Group. During six months ended June 30, 2011 the Group completed restructuring of the bank borrowing and repaid its debt to BTA in full. For details of restructuring, see Note 8. Furthermore, SAT accepted accounts payable of ShalkiyaZinc Ltd. to Atlas Copco Customer Finance AB in the amount of US $3.64 million.

16. SUBSEQUENT EVENTS

On December 19 the Annual General Shareholders' meeting was held in Rotterdam. During the meeting the shareholders appointed new Board of directors. Mr. Kenges Rakishev was appointed as a non-executive member of the management board with the personal title of the Chairman of the Board. Mr. Rollan Mussinov has been appointed as a non-executive member of the management board and Mr. Alken Kuanbay has been appointed as an executive member of the management board.