ShalkiyaZinc N.V. Annual Report and Accounts 2009

SHALKIYAZINC N.V.

Annual Report and Accounts
for the year ended 31 December 2009

ShalkiyaZinc is one of the leading zinc and lead mining companies in Kazakhstan

Business Review

Financial Statements

Highlights

1.5mtpa
current production capacity of Shalkiya Mine and Kentau Processing Plant

2.0mtpa
the first line of the New Processing Plant planned to be put into operation in 2013

202mt
reserves at the Shalkiya Deposit according to the international JORC standards 2,235 million tonnes of it has been extracted by the Company during the period 2004/08

30%
of Kazakhstan's total zinc reserves occur at the Shalkiya Deposit as per Brook Hunt

2009

> Ore production at Shalkiya Mine was not resumed

Financial Highlights

> The Company did not receive sales revenue in 2009, as the production suspended in 2008 was not resumed in 2009

> A positive factor is that the Company ended 2009 without having increased its external debt

Operational Highlights

> The Company has not resumed production since it was suspended in November 2008. The Company has sought to preserve its assets at the Shalkiya Mine and have kept the Processing Plant at Kentau in operational status

New Construction

> In 2009 the Company's new construction project was funded through an investment of USD 1.22 million from the Company's own funds, a VAT recovery, sales of Company materials and coupon receipts from JSC BTA Securities

> In 2008, SRK Consulting conducted a technical audit for project development solutions

Shalkiya at a Glance

ShalkiyaZinc holds the mining rights to the largest zinc mine in Kazakhstan.

Shalkiya mine (the "Mine")

In 2009, the Company created six additional wells at the Mine, comprising 2,704.2 metres of drilling so as to confirm the quality of the Shalkiya deposit's reserves.

The Mine was constructed in 1980, and was later acquired by the Company at an auction in 2001. Ore extraction from the Mine in February 2004 and current ore production capacity is 1.5mtpa.

The Company plans to resume production of ore up to 2mtpa by 2013 with a further increase to 4mtpa by 2015.

Kentau processing plant (the "Kentau Plant")

Originally built in 1963, the Kentau Plant quickly became one of the largest lead and zinc plants of the Soviet Union. The Company purchased the Kentau Plant in 2003 and in February 2004 began processing the ore delivered from the Mine.

Between February 2004 to 31 December 2008, the Processing Plant produced 97,000 tonnes of zinc concentrate and 27,000 tonnes of lead concentrate, respectively containing around 45% of zinc and 35% of lead.

During this period the Company modernized the Kentau Plant, increasing its output capacity to 1.5mtpa and increasing the percentage of zinc recovery from concentrate to 68%.

New processing plant ("New Processing Plant")

In 2009, the Government of the Republic of Kazakhstan included the "construction of the new 4mpta processing plant and an expansion in the capacity of the Shalkiya mine to an annual output capacity of 4mtpa of lead-zinc ore per year" in its Industrial and Innovation Development Programme for 2010-2014. The implementation of the New Processing Plant is intended to significantly increase the Mine's ore-production competitiveness in the market, through expanding its process parameters, decreasing its production costs and removing its ore transportation costs altogether, ultimately increasing the Company's profitability.

With its technical consultants, the Company has decided that the most expedient approach is to divide the New Processing Plant's implementation into two new production lines, each with a production capacity of 2mtpa. The first line will be put into operation by 2013, and the second line by 2015, with the full capacity of 4mpta being reached by 2015. This 'phase' approach will guarantee efficiency of the construction of the New Processing Plant, and reduce the Company's initial investment costs.

As well as an increase in production capacity to 4mpta, the extraction of lead and zinc from ore will be significantly more efficient at the New Processing Plant. According to studies conducted by Outotec Technology, zinc and lead recovery will increase up to 70% and 50% respectively. Furthermore, the quality of zinc concentrate will increase with up to 55% zinc and 5% silica. The quality of lead concentrate will increase up to 43% lead.

At the end of 2008, the global economic crisis and the related large drop in metal prices, including for zinc and lead, meant that ShalkiyaZinc was compelled to stop ore production. Taking into consideration the specificity of the Shalkiya deposit and its considerable reserves of lean ore, ShalkiyaZinc arrived at what it saw as the only viable solution - the construction of a new highly productive ore-dressing and processing enterprise, with the potential for adding a zinc plant in the future.

The investment into this New Processing Plant is intended to increase the Company's competitiveness and profitability, through the creation of improved production processes thereby enhancing the quality of the product, reducing the losses made during processing, reducing production costs and removing ore transportation costs altogether.

Our Assets

The Company is opportunely located 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 Talap Deposit: a zinc-lead ore deposit 30 kilometres south-west of the Shalkiya Mine;

> the Kentau Plant: a zinc-lead ore Processing Plant near the town of Kentau in the southern Kazakhstan region.

The Company has a solid set of values and we use them to guide our day-to-day decisions and actions.

Vision and Values

In the face of challenging economic conditions, ShalkiyaZinc has been compelled to change its short-term operating plans, however the Company's vision remains unchanged – we strive to be one of the leading mining businesses in the region of Kazakhstan, Russia and Central Asia. We believe that, in order to reach this objective, we need to establish a vertically integrated company, including the Mine (ore mining), the New Processing Plant (ore processing) and, ultimately, a zinc smelter (production of zinc metal), at the same time as enhancing our reputation as a progressive, ethical, and respected employer, manufacturer and marketer of zinc and lead.

We rely on this solid set of values to guide our day-to-day decisions and actions. These values have provided a foundation for the way we interact with customers, suppliers, business partners, co-workers, shareholders and the communities in which we operate.

Our values are:

Health and Safety of Operations
ShalkiyaZinc regards health and safety as a key aspect of its operational activities. The Company's health and safety objective is to ensure that no one is harmed in any way at any of ShalkiyaZinc's sites of operation.

Operational Excellence
We strive to be the best in all that we do, in order to become one of the leading vertically-integrated mining businesses in Kazakhstan and Central Asia.

People Development
We strongly believe that the expansion of the Company is not possible without development of its people. Notwithstanding the current economic conditions and the suspension of the production activities, we have endeavoured to retain our key employees. We believe that our plans to commence operations at the New Processing Plant will allow us to invest in the further development of our key employees.

Protection of Environment
We belong to Kazakhstan and we strive to protect its environment from any harm, which might be caused by the Company's production activities.

Community Development
One of our objectives is to use the presence of the Mine and the Kentau Plant to generate long-term sustainable opportunities for people in the local communities.

Development timeline

1963/64
Shalkiya Deposit discovered.
Exploration begins.

1984/94
Construction of 3.0mtpa ore mine. Approximately USD 250 million invested into constructing shafts and installing necessary infrastructure.

1994/96
Kazakhstan's regulatory authorities approved the reserves. Closing of operations and abandoning of the mine due to the economic crisis.

2001/04
Company acquired the Mine assets at a bankruptcy auction financed by a loan from BankTuranAlem loan (in 2001). Acquisition of the Kentau Plant. USD 10 million spent on rehabilitating the Mine and the Kentau Plant. Mining resumed in February 2004. Acquisition of the Talap Deposit.

2005/06
Scoping Study by Independent engineers (Australia) Pty Ltd. ("IeA") to determine strategy for developing the Mine. Outokumpu completes pre-engineering study of a new 3.0mtpa Processing Plant. AMC in process of restating reserves in accordance with the JORC Code. Exploration programme of the Talap Deposit completed.

2007/08
1.5mtpa capacity achieved at the end of 2008, operations were suspended due to significant decline of world-wide lead and zinc market prices.

2009
Maintaining production assets functionality and commencing new capital construction.

2010/12
The design and construction of the first 2mpta-line at the New Processing Plant to increase in processing capacity.

2013
Expected launch of the first 2mpta-line at the New Processing Plant.

2013/14
Expected construction of the second 2mpta-line to achieve 4mtpa processing capacity.

2015
Expected launch of the second 2mpta-line with a capacity of 4mtpa.

2015/46
Expected annual volume of mining and processing to be 4 mpta.

Chief Executive's Statement

The main strategy of the Company is to implement its investment programme through the construction of the New Processing Plant with a capacity of 4mtpa.

MARAT SARKYTBAYEV
Chief Executive Officer

Having halted ore production in 2008, up until now, the Company has not resumed production because we strongly believe that the only way to maintain the Company's competitiveness and develop the reserves at the Shalkiya deposit is through an increase in the Mine's production capacity through the construction of the New Processing Plant and, potentially, a smelter in the future.

In addition, it should be noted that the Government of the Republic of Kazakhstan has included this New Processing Plant in its Industrial and Innovation Development Programme for 2010-2014.

Operations

Current output capacity of the Shalkiya Mine and the Kentau Processing Plant is 1.5mtpa.

One of the Company's current tasks is to maintain the Shalkiya Mine and the Kentau Processing Plant's functionality so as to ensure a prompt resumption of operations when market conditions are favourable.

Maintenance of the vehicular and fixed equipment has been undertaken. Mine shaft waters are permanently pumped out of the Shalkiya deposit, all of the workshops are sealed and protected, and the requisite provision of electricity and necessary materials are provided.

The Shalkiya Mine's railway service continues to provide transportation services for the neighbouring plants. In addition, the Company's water supply wells continue to supply water to the Shalkiya settlement and local businesses in the region.

To maintain these levels of activity, a staff of 127 people (including managers) that are led by the Company's Directors have been retained to work at both the Shalkiya Mine and the Kentau Plant and the mine continues to be supplied with electricity and the requisite materials.

A forced halt in the Company's production at the end of 2008 caused by the world financial crisis and the related large drop in metal prices persists.

As mentioned above, the Company is taking all possible steps to guard and preserve functionality of the production facilities. These tasks involve the following services specially organized at the mine and Processing Plant:

1. dust control, ventilation services and hoisting department which together ensure the day-to-day safety of workers going down the shaft in order to monitor the mine's working conditions, its equipment and shaft waters etc.;
2. water discharge department which is in charge of continuously pumping shaft water from the Mine to keep it in working condition;
3. water intake facility which provides fresh water for the Shalkiya settlement;
4. railroad department which render transportation services for construction raw materials that are produced by nearby plants;
5. duty drivers to transport people and goods;
6. security services at the mine and plant, which ensure security at the Company's sites;
7. communication department; and
8. the Mine's rescue team.

To preserve these services and departments a staff of 127, led by the Directors, is maintained, and the Mine and the Plant are supplied with the requisite electricity, materials and services.

As previously stated, the Company has continued in its programme for the "construction of the Processing Plant with output capacity 4mtpa and expansion of the Mine".

New Construction

In 2009 the Company continued to implement the construction project for the creation of the New Processing Plant. In particular, the following studies have been completed:

1. Outotec Technology, a Finnish engineering firm has conducted an additional study of the ore, which confirmed feasibility of production of zinc concentrate with grade 55% and 5% Silica at 70% zinc recovery, and of lead concentrate with grade 43% at 50% lead recovery.
2. Mekhanobr Engineering, a Russian engineering firm, has finalised the New Processing Plant's pre-feasibility study and commenced the New Processing Plant's preliminary engineering works.
3. Outotec Technology is currently finalising the production of two ball mills.

4. Kazgiprotsvetmet, a Kazakh mining design institute, has updated the project to increase the Mine capacity up to 4mpta.
5. The hoisting shaft head gear at Shalkiya Mine was constructed including ore storage bins and JSC Elevatormelstroy and ASAR LLP, two Kazakh industrial engineering companies, have commenced construction of the hoisting shaft and service shafts.
6. MIDIEL AB and MIDIEL NPF, respectively Swedish and Ukrainian firms specialising in the production of mining equipment, have produced mine hoisting engines which are ready for shipment. Payment schedules have been negotiated achieving mutual consent.
7. Mine equipment has been purchased from the Swedish and Finish equipment suppliers Atlas Copco and Sandvic respectively. Payment schedules have been negotiated by mutual consent.
8. SRK Consulting, a leading international consulting practice providing consultancy services to the earth and water resource industries, has conducted a technical audit of project development solutions.
9. 6 wells have been drilled at the Shalkiya Mine which involved 2,704.2 metres of drilling, at a cost of approximately US $313,000, so as to ensure the quality of the Shalkiya Deposit reserves.
10. The "preliminary environmental impact assessment" for mining of complex ores at the Talap deposit in Zhanakorgan district of Kyzylorda region has been developed. Positive conclusions from the State Ecological Expertise have been obtained.

In 2009 the Company invested USD 1.22 million into the construction of the New Processing Plant, which were comprised of a VAT recovery, sales of materials and coupon receipts from JSC BTA Securities.

Financial Summary

The Company had no sales revenue from concentrate during the reporting period, as production has been suspended since 2008.

The funds were received from a VAT recovery of US $2.327 million; revenue of US $ 405,813 from the sale of Company materials; and coupon receipts of USD 71,383 from JSC BTA Securities.

The Company has been operating in a cost-saving mode, and, as such, operating and management costs were reduced appropriately.

Administrative costs decreased by 67% from 2008 amounting to USD5.37 million in 2009 (2008: USD16.08 million). Payroll expenses amounted to USD1.29 million, 55% less than in 2008 (2008: USD2.85 million).

The Company has a credit line of USD48.570 million from Joint Stock Company Bank TuranAlem. This debt was established by a general loan agreement, and includes USD9 million added by way of a supplemental loan agreement in order to replenish the Company's working capital. On 31 December 2009, the Company used funds from the supplementary loan facility in the amount of approximately USD2.3 million. The grace period on the General Loan Agreement expired on 1 January 2010. The Company is not currently paying off the loan. The grace period for the supplemental loan facility expires on 1 January 2011.

BTA Bank loans default

In thousands of USD	
US Dollar	13,844
Tenge	16,596
Rubles	648
Total	31,088

As at 31 December 2009 the Company borrowings amounted USD 31,088.

In 2009, the Company failed to make scheduled payments due to BTA Bank. The failure to make scheduled payments of either principal or interest constitutes default under the loan agreements with BTA Bank. The loan agreements also provide for a cross-default in case of non-payments under contracts with third parties in the amount exceeding USD 300,000.

The Company failed to make scheduled payments of USD 1,722,000 to a supplier of equipment.

Both default and cross-default under the BTA loan agreements give BTA Bank the right to accelerate repayment of all BTA Bank loans.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. The Group incurred a net loss of USD18,357 thousand and USD42,831 thousand for the years ended 31 December 2009 and 2008, respectively. At 31 December 2009, the Group's current liabilities exceeded its current assets by USD34,221 thousand. At 31 December 2009, the Group accumulated deficit amounted to USD 63,686 thousand (2008: USD 45,329 thousand). Furthermore, the Group had negative equity of USD 1,246 thousand. The main reason for the net loss is a significant decline in the world market prices for the Group's products and the high cost of processing and transportation. As a result the Company suspended its production in November 2008. Also the Group suspended construction of a new processing plant which started in 2008.

Furthermore in 2009 the Group is in default under the BTA Bank loan Contracts, which gives BTA Bank the right to require the accelerated repayment of the borrowings in the amount of USD31,088 thousand.

The Company's ability to continue as a going concern is dependent on its ability to raise financing:

1) To finalize the construction of the New Processing Plant; and
2) To repay the Company's borrowings.

Per our assessment the Group would need additional financing to complete the construction. The New Processing Plant is to be equipped with innovative processing technology and equipment. Also the New Processing Plant is built at the location of the Shalkiya Mine and therefore unlike the Kentau Plant would not require transportation of ore from the mine to the plant and related transportation costs.

We are currently in negotiations with a potential investor about the conditions of the transaction. Also, we are in negotiations with the Ministry of Industry and New Technologies ("MINT"), the former Ministry of Energy and Mineral Resources ("MEMR"), regarding the MINT's waiver of its pre-emption rights to acquire the Company's shares. Based on that negotiations we believe that probability of the transaction and obtaining the waiver from the MINT and raising additional capital to fund the construction and repayment of the Group's borrowings is highly probable.

Markets

The main products produced from the complex ores of the Shalkiya deposit are concentrates, valuable for their zinc and lead constitution.

From 2004 to 2007 there was excess demand in the world market for these metals, caused mostly by growing demand in developing countries and China.

However, during that period a lot of new zinc mines were developed, gradually supply exceeded demand and as a consequence between September 2007 and the end of 2008, a large drop in the price of these metals was observed.

This price decrease caused the suspension of many small and medium-sized mines including at the Company's Shalkiya Mine.

According to analysts, the cause of such a price drop was unprecedented excess of stock formed in the previous year.

In 2009, excess zinc in the world market reached its highest levels since 1993, coupled with a decrease in demand in the USA and Europe.

According to the International Lead and Zinc Study Group, excess in demand over actual consumption was 445,000 tonnes. In 2009, production of zinc decreased by 9.1%, and demand in China increased by 18%.

World demand for zinc dropped by 5.3% during this period. In Europe this drop reached 25%, in the USA and in China the market actually grew by 11% and 18%, respectively. Following the drop of prices in 2009 prices for metals stabilised at the end of 2009, since when the price for zinc has increased by 100.5% and for lead by 100.6% according to the research of International Lead and Zinc Study Group.

Between October 2009 and the end of 2009, the price for zinc remained at USD 2,000mpta. In 2010, according to the International Lead and Zinc Study Group, world demand is expected to increase by 5%.

In 2009, demand for lead increased by 71,000 tonnes according to the International Lead and Zinc Study Group. Furthermore, in China, consumption of lead increased by 20% leading to an increase in world demand by 1.2%. Lead prices more than doubled in 2009. Taking into account the above and the Company's proximity to the strategic product markets, the Company believes it has very good prospects for the resumption in production and the implementation of its expansion and development plans.

Project Development Prospects

The plans of the Company for the New Processing Plant stated in the Annual Report for 2008 remain unchanged.

To compliment the construction of the New Processing Plant in the south of the Republic of Kazakhstan, the Company aims to build a large mining and smelting plant, which will include a mine and processing plant, creating around 10,000 new jobs.

The importance of this project is evidenced by its inclusion in the Government of Kazakhstan's Industrial and Innovation Development Programme for 2010 - 2014. As of the beginning of 2010, the Company has already made considerable investments into the project.

At present the engineering has been finished by the companies specializing in development of complex ore processing technologies and development of mine and smelting plants construction projects.

The detailed engineering for the mine construction was developed by Kazgiprotsvetmet, a major engineering company in the Republic of Kazakhstan. The basic engineering for the construction of the New Processing Plant, and additional studies have been completed by world famous Finnish engineering company, Outotec. A feasibility study and preparation for detailed engineering for the construction of the New Plant has been carried out by a Russian company Mekhanobr Engineering, which have great experience in the design of Processing Plants in the former Soviet Republics.

In 2009, the Company concentrated its efforts on the preservation of its assets and its key personnel.

Technical audits of the project have been conducted by the well known English consulting company, SRK Consulting, who have confirmed the project and the technological approaches proposed for its construction. The Company converted all of its reserves into the international JORC standard and occupies the fifth place in the world in quantity of zinc reserves.

At the Mines, construction of two shaft head gears for hoisting ore and bringing workers and other cargoes to the shaft and up to the surface has started, as well as the construction of a service-and administration building which includes offices, dormitories, a canteen, medical station and shower rooms etc.

Construction is performed by big construction organizations that specialise in industrial projects, such as JSC “Elevatormelstroi” known not only within Kazakhstan but outside its borders in Russia, and by JSC “Asar” a company operating in the south of Kazakhstan.

A set of mobile mining equipment has been produced by Swedish mining equipment specialists, Atlas Copco. The firms “MIDIEL AB” (Sweden) and “MIDIEL NPF” (Ukraine) have produced and prepared hoisting engines, which are now ready for shipment.

Furthermore, the firm Outotec Technology has manufactured three 5,8x9,2egl, 6,000 kWt ball mills, which are ready for shipment.

It should be noted that, with the onset of the world financial crisis, financing of the New Processing Plant was stopped by Kazakhstan’s BTA bank, and it was further delayed by other investors. At present, we have agreed with construction companies and equipment suppliers an extension for payment of the performed work and for the continuation of work that has already begun to run as soon as finance is resumed.

Strategy and Investors

In 2009 the economic crisis continued and the Company was ongoing unfavourable conditions in the world market.

The world economic crisis and major depression, in particular in car production and construction, led to a considerable decrease in the demand for zinc.

Accordingly, the world financial crisis affected the Company. The Company has preserved the flexibility for its future development and, despite suspension of the production, has started to implement its investment programme.

In 2009, the Company concentrated its efforts on the preservation of its assets and its key personnel. Coupled with this, the Company has continued its work on its development plans.

For 2010, the Company has clear ideas about the aims, objectives and priorities. The main strategy of the Company is to implement its investment programme by way of constructing the New Processing Plant with a capacity of 4mtpa.

Despite the temporary suspension of production during 2009 the Company strongly believes that the production assets of the Company, considerable investments during 2001/08, and extraordinarily large reserves, will ensure the implementation of its investment programme. The strategy for the period up to 2014, developed in conjunction 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. Furthermore, upon the 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 tonnes of zinc in zinc concentrate.

In particular, in accordance with the Company’s financial model, the Company expects a net loss during 2010 and 2012 whilst it carries out its expansion and development plans, however, the Company estimates that it will receive a net income of US 23.2 million in 2013, once the first line of the New Processing Plant is completed. The Company expects to make capital investments of USD24.7 million in 2010 and USD49.4 million in 2012 to complete the construction of the New Processing Plant.

Due to the tight situation in the world economical market during 2008/09 the Company suspended its active implementation of its capital construction programme. However, at the beginning of 2010 the Company expects positive signs from the global market for non-ferrous metals and the Company plans to resume its investment programme. Various investors from Kazakhstan and the biggest international companies show interest in our Company and are ready to participate in the implementation of our investment programme. All this allows the Company to remain confident of its success.

With the cessation of the economic crisis and the re-activization of markets in the near future, we are confident that investment in the vertical-integrated mining and smelting plant at Shalkiya Deposit will also be resumed.

Taking this opportunity I would like to express my gratitude to each person who, during such a difficult period for us, has worked with the goal of achieving the long-term plans of the Company.

I would also like to thank you, our shareholders, for your continuing support.

Marat Sarkytbayev
Chief Executive Officer
03 August 2010

Review of Operations

Operations

The Company has made a great effort to keep existing workings, pit heads and structures, mining equipment in good technical condition ready for production recommencing at the Shalkiya Mine.

Shalkiya Mine

The reserves of the north-western section of the Shalkiya Deposit occurring above the +100 metres were accessed by three shafts "Production shaft", "Service shaft", "Hoisting shaft" and motor transport decline.

"Production shaft", which is 6 metres in clear diameter, was sunk from the surface to the +40 metres (elevation +32 metres).

The shaft is equipped with double-skip ore and skip-cage hoists, through which ore and rock hoisting to the surface, man riding and movement of materials are carried out.

Service shaft and Hoisting shaft with the design diameter of 7.0 metres and 7.5 metres were sunk from the surface to the elevations –347 metres and 335 metres.

There is motor transport decline with a cross section of 18–23 square metres with a total length of 1,906 metres.

The motor transport decline is designed for movement of the mobile equipment and for delivery of materials. The motor transport decline has connections with levels +163 metres, +100 metres and currently is used for fresh air supply.

Pipe-cable and fresh air intake raises with diameter of 6.0 metres were sunk from the surface to the +100 metres in the area of the Production shaft. Mine water pumping column, compressed air pipes and industrial water pipelines are located in the pipe-cable raise. The main underground pumping station is located at the +100 metres level at the Production shaft.

Reserves of the levels +163 metres and 100 metres were accessed and they are being extracted by the room-and-pillar method, slot raise open stopping using mobile equipment. Ore from stopes is delivered through ore passes to the +100 metres level, whereby it is delivered to the Production shaft by rail transport for winding up to the surface by skip hoists.

Ore skips are discharged into a surface bunker/bin of the Production shaft, from where ore comes to apron feeder 1-15-120 and then on to jaw crusher SDP-12x15.

After the crusher coarse ore (–250 millimetres) is fed by a conveyor belt to a commodity product bunker, from where it is loaded to railway cars or dump trucks for transportation to the Kentau plant.

At Shalkiya Mine for drivage and stopping it is used the high-duty cargo handling machinery drilling rigs and dump trucks of Atlas-Kopko and Sandvik manufacturers.

The Company has made a great effort to keep existing workings, pit heads and structures, mining equipment in good technical condition ready for production recommencing at the Shalkiya Mine. At present the personnel of the mine consists of 78 workers.

Location and Infrastructure

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

Code fixes of the mine is 67 degrees 25 minutes of east longitude and 44 degrees 01 minutes of north latitude. Altitude above sea level is approximately 260 metres.

Shalkiya Mine has a well developed infrastructure for the implementation of the increasing output project. 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.

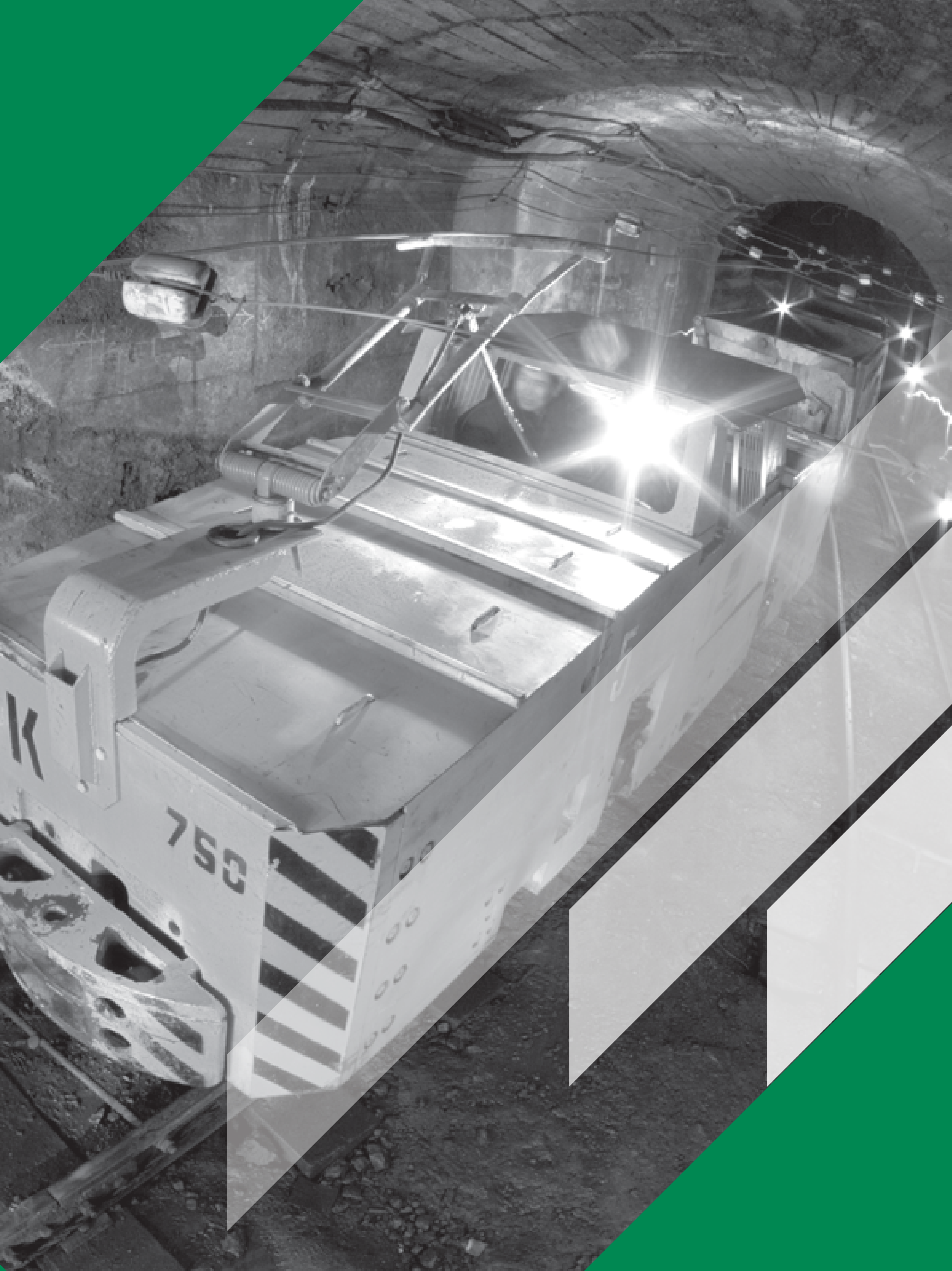
The mine is supplied with electricity from nearby overhead electrical lines of 220kW, power supply is performed through parallel lines of 35kV from step down transformer Janykorgan 220/35/10kV, being powered separately.

All rivers are shallow and inflow into the Syr Darya river. The largest of them are Zhidely, Kelte, Akuyk and their feeders.

The source of water supply to the mine and the settlement Shalkiya is nearby underground water intake Kutekhodzha well.

Kentau Processing Plant

Modernization of the Concentrator conducted by the Company accomplished in 2008 with complete replacement of worn out flotation machines and pumps allowed us to increase the output capacity of the Concentrator up to 1.5mtpa compared to the initial capacity of 0.6mtpa.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Until the new Concentrator is operational the ore from Shalkiya Mine can be processed at the Kentau Plant. For this purpose all the existing assets, despite suspension of production, are maintained in working condition, all shops of the plant are sealed and are guarded by a special security division, with a total of 31 workers.

Construction of the New Processing Plant with Output Capacity 4mtpa at Shalkiya

With the aim of increasing competitiveness of the Project of construction of at the New Processing Plant Outotec Minerals Oy has conducted additional testings aimed at seeking ways of upgrading of zinc concentrate to saleable grade and research hydrometallurgical process/direct leaching of 45% Zn concentrate to metal.

The positive results obtained convincingly showed the cost effectiveness of the construction of the New Processing Plant at Shalkiya and prospective construction of the zinc plant.

Upgrade test work was carried out at the Kentau plant, Fresh process samples (Zinc concentrate containing 45% Zn and 15% silica) were used to ascertain the feasibility of an upgrade.

Results were successful and therefore such upgrade process was introduced to process design afterwards.

Saleable Zinc concentrate from the upgrade process would contain 55% Zinc and 5% Silica at 70% Zinc recovery from the plant feed.

Outotec Minerals Oy has studied further, how more zinc could be recovered from the low-grade portion of zinc produced by the upgrade process product by grinding it finer to P80=15 microns and liberating sphalerite-quartz composite. The capital (equipment cost less than USD 5 million and operating cost USD 0.1/t ore) to add the upgrade circuit to Processing Plant is not material and therefore this option is the preferred one.

Along with assistance from Outotec, SRK, Mekhanobr Engineering the Company considered the options of use different types of process equipment manufactured in Western Europe, Russia, China and at present jointly with the consultants the work on selection of optimal manufacturers continues.

New Technology in Ore Processing

Coarse ore (–250 millimetres) will be fed from the ore storage into the secondary-tertiary crushing facility. The fine material in the ore will be removed from the crusher feed by screening it and delivering –16 millimetres material directly into fine ore bins. Fines from the screen goes into fine ore bin and coarse will then be fed in the tertiary crushers.

Fine ore bin will dumps its material onto the belt conveyor which will then deliver the fine ore (P80=12 millimetres) into fine ore storage silos adequate for two days ore feed to the grinding. Primary and secondary grinding of the ore will takes place in ball mills down to P80 of 450 and 53 microns respectively. Tertiary grinding to P80 of 30 microns will be carried out in fine grinding units (three horizontal IsaMills). IsaMills will use ceramic grinding media (size 2–3 millimetres). Flotation section consists of selective flotation of lead minerals (rougher, scavenger, cleaners) followed by flotation of Zinc minerals.

In both flotation circuits the rougher concentrates will be reground in IsaMills to P80 of 20 microns. Lead flotation has four and zinc correspondingly five cleaning stages. Flotation reagents are those, which are typically used in the industry in Pb-Zn selective flotation; lead rougher and scavenging flotation will takes place large 100 cubic metres flotation machines (tank cells). Zinc roughers, scavengers and first cleaners are 200 cubic metres tank cells.

The zinc concentrate from the fifth cleaner will be classified using small size hydro cyclones, cyclone underflow reground in IsaMill. Hydro cyclone overflow and cleaned zinc concentrate will be combined and they form a high-grade zinc concentrate 55% Zn, 5% $SiO2$ and 70% Zn recovery.

All concentrates will be thickened, pressure filtered and delivered to storage for transportation to downstream processors.

Tailings will be thickened, overflow of the tailings thickener will be fed into the water recycling system together with overflows of the thickener of zinc and lead concentrates.

The plant tailings will be thickened and the overflow water will be directed into water reuse system together with Pb and Zn concentrate thickener overflows. The thickened tailing will be pumped into tailings storage facility ("TSF"). Clarified water from the TSF will be pumped back into water reuse system. TSF design was not in the OT's scope of design.

The whole process from crushing to dewatering of concentrates will require the use of field instruments, online analyzer, particle size monitors and motor controls centres, which is directly connected to Proscon process control system. Processing will be monitored and controlled from a control room located in the main process building.

Reserves and Resources

There are three deposits situated in the late Palaeozoic Akuyuk-Maydantal geological region, which forms part of the thrust belt at the south-western foothills of the Karatau Ridge in the territory of Kyzylorda region in the south of Kazakhstan.

The stratigraphy comprises of Middle-Upper Devonian terrigenous red beds (Tiulkubash formation) overlaid by a carbonate sequence comprising fammenian, fammenianlower Carboniferous, Tournesian and visean formations.

Pb-Zn mineralization is stratiform and hosted by two carbonaceous-pelitic-siliceous-carbonate horizons within Upper fammenian dolomites and sandstones.

Shalkiya Deposit

The Shalkiya lead and zinc deposit is the most important deposit in the district. Other deposits are at Talap, also owned by ShalkiyaZinc, and state-owned Burabai-Zhalgyzagash. Shalkiya is a blind deposit. It extends from a depth of about 20 metres in the north-west down to a depth of 800 metres in the south-east. The deposit covers an area of almost 6 kilometres in length and up to 1.2 kilometres in width. The Shalkiya Mineral deposit was discovered during a geochemical survey in 1963 and was subsequently explored in several stages from 1963 to 1994. During this period large quantities of geological data were collected in a detailed and methodical manner. The shallower north-western section was explored until 1979 and the deeper south-eastern section from 1979 to 1994. Further core drilling and underground verification sampling was undertaken on the north-western section in 1986 to 1994. The development of the mine commenced in 1984 following designs developed by the Institute Giprotsvetmet of Moscow in 1982. From the start all infrastructure was installed to service the 3mtpa production rate, including the sinking of two shafts to a depth of 580 metres to service the south-eastern section of the mine. The operations were stopped in 1994 due to economic reasons, followed by the collapse of the Soviet Union.

Within the period from 2004 till 2009, 2,235 thousand tonnes of ore were mined with zinc 3.76% grade and lead 1.48% grade.

In 2007 AMC Consultants (UK) ltd restated Shalkiya's Mineral Resource and Ore Reserve in accordance with the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

JORC Compliant Mineral Resources (at a 1.5 ZnEq Cut-Off) and Ore Reserves (at a 1.7% ZnEq Break Even Grade) at 31 December 2008

Category	Quantity (mt)	Pb (%)	Zn (%)	Zn grade (%)	Pb metal (mt)	Zn metal (mt)
Mineral resource						
Measured	58	1.0	3.2	3.7	0.58	1.86
Indicated	206	0.7	3.1	3.4	1.4	6.4
Total measured and indicated	264	0.8	3.1	3.5	1.98	8.26
Inferred	9	0.6	2.2	2.5	0.1	0.2
Ore reserve						
Proved	43	1.12	3.3	3.8	0.46	1.36
Probable	158	0.8	3.2	3.6	1.2	5.1
Total	**201**	**0.8**	**3.2**	**3.7**	**1. 68**	**6.46**

Talap Deposit

The Talap Deposit is situated in Zhanakorgan District of the Kyzylorda region, 35 kilometres away from the Shalkiya Deposit. ShalkiyaZinc acquired the Talap Deposit in 2004. The Talap Deposit was discovered in 1984 and was evaluated in two stages:

> 1984 to 1985: the prospecting and prospecting-assessment, including ground geophysics, prospecting and mapping, drilling and geophysical logging.

> 1986 to 1991: the preliminary exploration, including 180 drillholes, 70 composite samples, 50 small and nine laboratory scale metallurgical samples from 46 to 327 kilograms in weight.

Kazakh Balance Reserves were estimated on completion of the preliminary exploration and approved in 1989. A recent review of the exploration database resulted in a revised reserve estimate that was approved in August 2006.

The Talap site has not previously been developed except for the installation of an exploration shaft, sunk to a depth of 40 metres. Electric power is available from a 10kV feeder from the main Shymkent to Kyzylorda 220kV transmission line approximately 3 to 5 kilometres to the north of the deposit.

In 2007 AMC Consultants (UK) ltd restated Talap's Mineral Resource and Ore Reserve in accordance with the 2004 edition of the JORC Code.

Talap JORC Compliant Mineral Resources at 1.5% ZnEq Cut-Off at 31 December 2008

Classification	Type of mineralization	Ore (mt)	Grade (%) Pb	Grade (%) Zn	ZnEq (%)
Indicated	Oxide and mixed	2.3	1.8	3.0	3.9
	Sulphide	17.8	1.6	3.0	3.8
Total indicated		**20.1**	**1.6**	**3.0**	**3.8**
Inferred	90% sulphide	4.8	1.2	2.6	3.2

Processing of ore from the Talap Deposit was originally planned at the Kentau Plant. However, due to the significant decrease in the market zinc prices in 2008 and historically high costs of processing at the Kentau concentrator and high transportation costs production of ore from the Talap Deposit became economically not viable. Accordingly, in 2008, the Company closed down the assets of the Talap Deposit.

Financial Position

At 31 December 2009, the Company's current liabilities exceeded current assets by USD 34,221,000. At 31 December 2009, the Company's accumulated deficit amounted to USD 63,686,000. Furthermore, the Company had negative equity of USD 1,246 thousand.
As can be seen from the Company's consolidated balance sheet the Company's total assets decreased by USD 21,995, which was primarily driven by the Tenge devaluation in 2009 from 120 Tenge per USD 1 to 150 Tenge per USD 1.

Property, Plant and Equipment

During 2009, the Company continued investing into the construction of the New Processing Plant and the modernization of the technological basis of the Mine. Total investments amounted to USD 1.22 million.

Deferred Tax Assets

Management's assessment of the recoverability of the deferred tax assets of USD 917 thousand is based on the plan to complete the construction of the New Processing Plant and resume production at the Kentau Plant by 2012. Based on the deposit's resources, additional ore studies, and technological and commercial feasibility studies, management believes that the Company will generate sufficient taxable profits starting from 2014 to utilize deferred tax lasset recognized as of 31 December 2009.

VAT Receivable

As at 31 December 2009 VAT receivable amounted to USD 3,449 thousand. In 2008, the Company made provision for VAT impairment of USD 4,311 thousand. In 2009 the Company reimbursed USD 2,327 thousand from state budget. At 31 December 2009, VAT receivable of USD 1,427 thousand is classified within non-current assets as the Company does not expect reimbursement of this VAT receivable in 2010.

Trade and Other Receivables

At 31 December 2009 the Company's trade and other receivables decreased by USD 334 thousand which was mainly due to the suspension of operations. At 31 December, the Company's trade and other receivables were denominated in Tenge.

Borrowings

At 31 December 2009 the Company borrowings totaled USD 31,088 thousand. The cash proceeds were mainly used for financing of operating expenses of the Company and payments to suppliers of equipment.

On 10 June 2010, the Company received a letter from BTA Bank informing that BTA Bank has no plan to execute its rights over pledged assets, to accrue penalties and to require accelerated repayment of principal and interest due to BTA Bank as at 31 December 2009.

Financial Performance

Revenue

The Company did not receive sales revenue from zinc or lead concentrate in 2009, as production has not resumed since 2008.

Net Loss

Net loss for 2009 was USD 18 million (2008: net loss was USD 43 million). The Company recognized reversal of impairment in the amount of USD 1,095 thousand; general and administrative expenses of USD 5,370 thousand; finance cost USD 5,422 thousand; foreign exchange loss of USD 4,069 thousand.

Cost

The Company has been operating in a cost-saving mode, and, as such, operating and management costs were reduced appropriately.

Administrative costs decreased by 67% from 2008 amounting to USD 5.37 million in 2009 (2008: USD16.08 million). Costs on operation suspension totaled USD2.88 million.

Power and Other Utility

The cost of power and other utility decreased by approximately USD 2.4 million (USD 2.7 million in 2008 to USD 0.3 in 2009).

Labour Cost

Labour costs amounted to USD 1.29 million, 79% less than in 2008 (2008: USD6.10 million).

Unitary Board of Directors' Report

Financial Statements

It is our pleasure to present the 2009 consolidated financial statements of ShalkiyaZinc N.V. as prepared by the Management Board (the "financial statements"). The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The financial statements have been audited by the external auditors, and discussed with them on the basis of their report. The independent auditors' report is included on page 25. The independent auditors' report is modified by the emphasis of matter paragraph that highlights the existence of a material uncertainty relating to the events and conditions that cast significant doubts on the Company's ability to continue as a going concern. We approved the financial statements at our meeting on 03 August 2010 and recommend that you approved them as well.

We concur with the proposal that there be no distributions of earnings with respect to the current reporting period.

Corporate Governance

Board of Directors

ShalkiyaZinc's Board of Directors consists of Executive Directors and Non-Executive Directors, only natural persons can be Non-Executive Directors and the Board determines the number of Executive Directors and the number of Non-Executive Directors. No transactions have been reported involving a conflict of interest of the Board members and there were no options granted to the Unitary Board or the Company's employees during the reporting period. The Board of Directors is not aware of any protective measures employed by the Company in respect of its management of the Company.

To ensure the correct balance between executive, non-executive and independent members of the Unitary Board, the Board is considering appointing a further non-executive member to the Unitary Board, details of whom will be published in due course. The company does not have a Supervisory board. Governance activities are performed by the non-executive directors, who must be independent from the Company in accordance with the Dutch Code. The non-executive directors supervise and assess the policies and performance of the executive members and the general affairs of the Company and its affiliated enterprise, as well as assisting the executives by providing them with advice. The non-executives must be guided by the interest of the Company and its affiliated enterprise and take into account all of the relevant interests of the stakeholders. In this respect, the non-executives perform the Company's checks and balances.
Under current arrangements, members of the Unitary Board of Directors do not receive any salary or performance-based bonuses and are not entitled to additional benefits from the Company. However, the Executive members of the Unitary Board, Marat Sarkytbayev and Ramilya Azelgareyeva, receive a salary in respect of their positions on the Management Board of ShalkiyaZinc in the amount of USD155,000 and 36,000, respectively.

ShalkiyaZinc's Unitary Board of Directors comprises:

Marat Sarkytbayev
Executive Member
Mr. Sarkytbayev is ShalkiyaZinc's co-founder, General Manager of the operating company. Mr. Sarkytbayev has served as General Director of ShalkiyaZinc since 25 November 2002, by resolution of the General Meeting of ShalkiyaZinc. Prior to this position, Mr. Sarkytbayev held several similar positions, including President and Chairman of the Board of Directors of several companies and organisations, including JSC Araltuz, the Defence Committee of the Ministry of Energy of Kazakhstan, the Astana-Holding Group, and SOJSC Caspi Neft TME.

Ramilya Azelgareyeva
Executive Member
Mrs. Azelgareyeva has served as Director of the Company's Financial and Economic Department since 2 May 2002. Prior to this position, she held the positions of Engineer-Economist, Chief Engineer, and Chief Economist at several companies and organizations including the Institute of Kazinalmazzoloto, LLP Geointsentr, and the Ministry of Geology of the Kazakhstan Soviet Socialist Republic. Mrs. Azelgareyeva is also the author of methodological recommendations (instructions) on the creation of feasibility studies on mineral deposits development. This methodology was formulated in 1995 in accordance with international standards, and at present is the principal authority utilized by subsurface users for the preparation of reports submitted for approval to the State Reserves Committee of Kazakhstan at different stages of geological exploration.

Baurzhan Bisembayev
Non-Executive Member
Mr. Bisembayev is an experienced manager; from 1991 to 2000 he served as a Financial Director and member of the Board of LLP "BATA". Since 1999 he has held the position of First Vice President of JSC "Atyrau refinery plant", then Chairman of Board. Mr. Bisembayev served in the National Oil Company "KazahOil" as a Director of Department Management of ANPZ and as an adviser to the President of the Company and gained valuable experience in the development of natural resources. Since 2004 he has been a member of the Board of JSC "KOR". The Company benefits from Mr. Bisembayev's experience in the natural resources development sector of Kazakhstan, and his financial experience. Mr. Bisembayev holds no other non-executive board position. Mr. Bisembayev does not hold

any share capital in the Company, and is independent, as defined in the Dutch Corporate Governance Code

Talgat Alimkhanov
Non-Executive Member
Mr. Alimkhanov has extensive mining experience. At present, he holds the position of General Director of LLP "Zhety Kazyna". Before that, Mr. Alimhanov held several similar positions at other companies. He served as president of JSC "Syrymbet" for three years. From 2002 to 2005, Mr. Alimhanov held the position of General Director of LLP "Corporation KBK". At present he is also a Member of the Supervisory Board of LLP "Zhety Kazyna", and he has managed the process of development of nickel deposits. The Company benefits from Mr. Alimhanov's experience in managing the process of developing mining deposits, and his management experience. Mr. Alimhanov holds no other non-executive board position Mr. Alimhanov does not hold any share capital in the Company, and is independent, as defined in the Dutch Corporate Governance Code.

The Board met once in 2009. Each Director receives a monthly project status report including management comments and other information showing the performance of the Company and its subsidiary and its principal business. The Directors are given a full Board pack with agenda in advance of each meeting of the Board of Directors.

Board Committees
The Board of Directors has established an Audit Committee, Remuneration and Nominations Committee, and an Executive Committee. The non-executive directors are the sole members of the Audit Committee, Remuneration and Nominations Committee.

Audit Committee
Its duties include a review of ShalkiyaZinc Annual Report and half yearly reports, the role, scope and performance of the internal control systems of the Company and the external auditors and the independence and objectivity of the external auditors. The Audit Committee focuses particularly on the Company's compliance with legal requirements, accounting standards and the Listing Rules, ensuring that an effective system of financial controls is maintained. The CFO attends the meetings by invitation. During 2009, the Audit Committee met twice.

Remuneration and Nomination Committee
The Remuneration and Nomination Committee is responsible for making recommendations to the Board of Directors on the policy on the remuneration of senior management, on reviewing the performance of Executive Directors and senior management. It also considers the composition of the Board of Directors and appointments of Directors, and makes proposals and recommendations to the Board of Directors and the shareholders' meeting on issues related to the composition and nomination of the Board of Directors.

The CEO attends the meetings by invitation. During 2009, The Remuneration and Nomination Committee met once.

Executive Committee
The role of the Company's Executive Committee is to manage the conduct of mining and processing operations. Each member of the Executive Committee has his or her own area of responsibility and has the duty to develop the operations in accordance with the targets set by the Board of Directors. The Executive Committee meets 1–3 times a month.

During 2009 the Executive Committee has consisted of the following:

Marat Sarkytbayev
Executive Director and CEO

Ramilya Azelgareyeva
Executive Director

Risk Management Committee
The Company has appointed a Risk Management Committee reporting directly to the Board of Directors. This Risk Management Committee will identify, evaluate and develop strategies to minimize the impact of risks that can be controlled by the Company. ShalkiyaZinc has a limited operating history and has only had operations since the beginning of 2004. As a result, it is subject to risks, expenses and uncertainties associated with implementing its business plan that are not typically encountered in more mature companies. In particular, the main risks arising from the Group's financial instruments are interest rate risk, commodities risk, foreign currency risk, liquidity risk and credit risk. Any failure to take necessary actions and any weaknesses in the operational and financial systems or managerial controls and procedures of the ShalkiyaZinc may impact ShalkiyaZinc's ability to implement its business plan and may have a material adverse effect on the business, financial condition or results of operations of the ShalkiyaZinc. Please see the section attached to this report entitled "Risks and Uncertainties Relating to ShalkiyaZinc's Business" for more details.

Finally, we would like to express our sincere thanks to the management and all the Company's employees for their efforts in 2009.

The Dutch Code

The amended Dutch Corporate Governance Code (the "Dutch Code") which became effective as at 1 January 2009. The Dutch Code applies to all companies whose registered offices are located in the Netherlands and whose shares or depositary receipts are officially listed on a government recognized stock exchange (including foreign stock exchanges, such as the London Stock exchange). The Management Board is responsible for the Company's compliance with the provisions of the Dutch Code and has ensured that the Company generally subscribes to the principles promulgated by the Dutch Code, and it will take the further steps it considers appropriate to implement the Dutch Code. Following recommendations of PricewaterhouseCoopers the Company introduced a new Board structure approved by an Annual General Meeting of shareholders on June 18, 2008. The Unitary Board replaced a two-tier structure with a simpler structure consisting of the Unitary Board at the NV level and the combined operating Board of Directors at the LLP level. As such the Company does not have a Supervisory board, but does have non-executive board members who are responsible for the Governance activities of the Company.

The Company does not comply with the following best practice rules in respect of the Dutch Corporate Governance Code:

Number ii.1.6 The Company currently does not have a whistleblowers policy, but is developing such a policy and expects to have it adopted by the end of 2010.

Number iii.8.4. To ensure the correct balance between executive, non-executive and independent members of the Unitary Board, the Board is considering appointing a further non-executive member to the Unitary Board, details of whom will be published in due course.

Numbers III.6.I-III.6.3, II.6.4, III.1.2, III.1.2, III.1.3, III.1.5, III.1.7, III.1.8, III.2.3, III.3.1, III.5, III.5.2, and V.3.3. The Company cannot apply these best practice rules as it has a unitary board. The items referred to in the best practice rules - to the extent possible - have instead been addressed in this report of the unitary board.

The Unitary Board
03 August 2010

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements
For the year ended 31 December 2009

The following statement is made with a view to the respective responsibilities of management in relation to the consolidated financial statements of ShalkiyaZinc N.V. and its subsidiary (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2009 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

In preparing the consolidated financial statements, management is responsible for:

> selecting suitable accounting principles and applying them consistently;
> making judgments and estimates that are reasonable and prudent;
> stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
> preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

> designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
> maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
> maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
> taking such steps as are reasonably available to them to safeguard the assets of the Group; and
> detecting and preventing fraud and other irregularities.

Board statement

Referring to section 5:25c, paragraph 2c of the Financial Supervision Act, the Board of Management confirms that, as far as they know:

> the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation;
> the management report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

The consolidated financial statements for the year ended 31 December 2009 were approved by management and authorized for issue on 20 July 2010.

Signed on behalf of the Group.

Marat Sarkytbayev
General Director

Risks and Uncertainties Relating to ShalkiyaZinc's Business

An investment in the Company's GDRs involves a high degree of risk. You should carefully consider the following risks, in addition to the section entitled "Risk Factors" in the Company's Prospectus in relation to its offer of GDRs. The main risks arising in respect of the Group are location risk, interest rate risk, commodities risk, foreign currency risk, liquidity risk and credit risk. Additional risks and uncertainties that the Company or management may not be aware of, or may believe are immaterial, could also adversely affect the Company's business, operating results and financial conditions.

Investors should pay particular attention to the following risks:

> The majority of the Company'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 Company'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.

> Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. In 2009, the Group classified borrowings as payable on demand due to the failure to make scheduled payments of principal and interest which constitutes an event of default under the loan agreements with BTA Bank. Therefore, the whole amount of the debt was reclassified to current liabilities as at 31 December 2009. Management plans to attract financing through a private placement of additional Group's shares and repay the borrowings.

> Significant uncertainties exist regarding the Group's ability to continue as a going concern. As such the primary objective of the Group's capital management is to ensure that the Group liquidity is improved and adequate funds are obtained for financing the plans for construction of the new processing plant and repayment of bank borrowings. As of 31 December 2009, the accumulated losses resulted in a negative equity amount of USD 1,246 thousand. Management plans to hold a general meeting to discuss capital management measures in 2010. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2009.

The Company has appointed a Risk Management Committee reporting directly to the Board of Directors. This Risk Management Committee will identify, evaluate and develop strategies to minimize the impact of risks that can be controlled by the Company.

Management and control systems

ShalkiyaZinc has a limited operating history and has only had operations since the beginning of 2004. As a result, it is subject to risks, expenses and uncertainties associated with implementing its business plan that are not typically encountered in more mature companies. In particular, the main risks arising in respect of the Group's are interest rate risk, commodities risk, foreign currency risk, liquidity risk and credit risk. Any failure to take necessary actions and any weaknesses in the operational and financial systems or managerial controls and procedures of the ShalkiyaZinc may impact ShalkiyaZinc's ability to implement its business plan and may have a material adverse effect on the business, financial condition or results of operations of the ShalkiyaZinc.

Control Statement

Management is of the opinion that our internal risk management and control systems are adequate in relation to the size of the Company's business and effective, however can provide no absolute guarantee to this effect.

There have been no significant changes in internal control system during 2009.

Financial risks

We confirm that:

> our risk management and control systems provide reasonable assurance that the financial reporting contains no material misstatements;
> the risk management and control systems operated effectively in the year under review;
> there are no indications that the risk management and control systems will not operate effectively in the current financial year.

Going concern

The Company's future operations are dependent on the successful implementation of management's plan for completion of the construction of the new processing plant which requires financing of approximately USD 88 million. The financing of USD 42 million is also required to repay the Company's borrowings and to fund operating costs. The Company's major shareholders, as represented by the Kazakh individuals, and management plan to attract financing through a private placement of additional Company's shares. Management is currently in negotiations with a potential investor about the conditions of the transaction. Also, management is in negotiations with the Ministry of Industry and New Technologies (the "MINT"), a former Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (the "MEMR"), regarding the MINT's waiver of the priority right on acquisition of the Company's shares. Management believes that probability of the transaction and obtaining the waiver from the MINT and raising additional capital to fund the construction and repayment of the Company's borrowings is highly probable.

Furthermore, the Company's future production growth is dependent, interalia, upon its success in developing, mining and processing its reserves. All mining operations are characterized by a high degree of uncertainty, and therefore risk, associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions.

Events after the reporting period

Competent authority in the person of Ministry of Industry and New Technologies (former Ministry of Energy and Natural Resources) unilaterally terminated Subsoil Use Contracts with the Company.

On 01 June 2010 Specialized Interdistrict Economical Court in Astana city passed a judgment to consider actions of the competent authority illegal, the validity of the Subsoil Use Contracts being restored.

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Independent Auditor's Report

To the Unitary Board and shareholders of ShalkiyaZinc N.V.
Auditor's report

Report on the financial statements

We have audited the accompanying 2009 financial statements of ShalkiyaZinc N.V., Rotterdam as included on the pages 26 up to and including 57 of this Annual Report. The financial statements consist of the consolidated financial statements and the Company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Company financial statements comprise the Company statement of financial position as at 31 December 2009, the Company income statement for the year then ended and the notes.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for preparation of the Management Board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with Respect to the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ShalkiyaZinc N.V. as at 31 December 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with Respect to the Company Financial Statements

In our opinion, the Company financial statements give a true and fair view of the financial position of ShalkiyaZinc N.V. as at 31 December 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Emphasis of Matter

We draw attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of USD 18,357 thousand during the year ended 31 December 2009 and, as of that date, the accumulated losses resulted in a negative equity amount of USD 1,246 thousand, the Group's current liabilities exceeded its current assets by USD 34,221 thousand, and that its future business is dependent on its ability to raise additional capital and complete the construction of a new ore processing plant. These conditions, along with other matters as set forth in Note 2, indicate the existence of material uncertainties which may cast a significant doubt about the Group's ability to continue as a going concern. Management's plans for addressing these matters are described in Note 2.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report that the Annual report does not meet the legal requirements. Especially the majority of information required under 2:391 sub 5 relating to the corporate governance code and the takeover directive have been omitted.

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Zwolle, 20 July 2010
Ernst & Young Accountants LLP

signed by D.L. Groot Zwaaftink

ShalkiyaZinc N.V.
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2009

In thousands of USD (except as indicated in per share amounts)	Notes	2009	2008
Revenue	5	–	11,137
Cost of sales	6	–	(21,206)
Gross loss		–	(10,069)
General and administrative expenses	8	**(5,370)**	(16,079)
Distribution costs	9	–	(598)
Reversal of impairment/(impairment loss)	17	**1,095**	(16,045)
Operating loss		**(4,275)**	(42,791)
Finance income	13	**72**	58
Finance costs	13	**(5,442)**	(4,565)
Foreign exchange (loss)/gain, net		**(4,069)**	261
Other expenses		**(8)**	(128)
Loss before tax		**(13,722)**	(47,165)
Income tax (expense)/benefit	14	**(4,635)**	4,334
Loss for the period		**(18,357)**	(42,831)
Other comprehensive loss			
Foreign currency translation loss		**(2,898)**	(359)
Unrealized loss on available-for-sale investments	22	–	(29)
Net realized loss on available-for-sale investments	22	–	376
Other comprehensive loss, net of income tax		**(2,898)**	(12)
Total comprehensive loss for the year, net of income tax		**(21,255)**	(42,843)
Loss per share			
Basic and diluted loss per share, US cents	24	**(324.90)**	(758.07)

The notes on pages 30 to 52 form an integral part of these consolidated financial statements

On behalf of the Board of Directors:

Marat Sarkytbayev
General Director

Muchabbat Baitursynova
Financial Accounting Manager

ShalkiyaZinc N.V.
Consolidated Statement of Financial Position
As at 31 December 2009

In thousands of USD	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	15	**30,786**	40,510
Long-term portion of VAT receivable	18	**1,427**	3,705
Prepayments for non-current assets	19	**3,348**	5,765
Restricted cash deposit		**–**	147
Deferred tax asset	14	**917**	6,733
		36,478	56,860
Current assets			
VAT receivable	18	**2,022**	2,942
Inventories	20	**5,256**	5,551
Trade and other receivables	21	**334**	331
Prepayments	19	**397**	353
Cash and cash equivalents	23	**57**	502
		8,066	9,679
TOTAL ASSETS		**44,544**	66,539
EQUITY AND LIABILITIES			
Equity			
Issued capital	24	**83**	83
Share premium		**62,164**	62,164
Other components of equity	24	**193**	3,091
Accumulated deficit		**(63,686)**	(45,329)
		(1,246)	20,009
Non-current liabilities			
Borrowings	26	**–**	22,633
Provision for future site restoration	27	**2,131**	3,697
Due to the Republic of Kazakhstan	28	**1,372**	2,200
Long-term trade payables	29	**–**	1,887
		3,503	30,417
Current liabilities			
Borrowings	26	**31,088**	7,866
Trade and other payables	29	**10,092**	7,096
Income tax payable		**58**	–
Taxes payable other than income tax		**394**	496
Advances received		**655**	655
		42,287	16,113
TOTAL EQUITY AND LIABILITIES		**44,544**	66,539

The notes on pages 30 to 52 form an integral part of these consolidated financial statements

On behalf of the Board of Directors:

Marat Sarkytbayev
General Director

Muchabbat Baitursynova
Financial Accounting Manager

ShalkiyaZinc N.V.
Consolidated Statement of Cash Flows
For the year ended 31 December 2009

In thousands of USD	Notes	**2009**	2008
Operating activities			
Loss before tax		**(13,722)**	(47,165)
Adjustments for:			
Depreciation	12	**2,599**	3,647
Finance costs		**5,442**	4,565
Loss on disposal of property, plant and equipment		**45**	250
(Reversal of)/provision for doubtful accounts and impairment of prepayments and available-for-sale investments	19, 21, 22	**(419)**	3,113
Finance income		**(72)**	(58)
(Reversal of)/impairment of property, plant and equipment and exploration costs	17	**(1,095)**	16,045
Provision for slow-moving inventories and write off to net realizable value	20	**–**	273
Impairment of VAT receivable	18	**–**	4,311
Equity settlement		**–**	(165)
Foreign exchange loss/(gain)		**2,416**	(269)
Operating loss before working capital changes		**(4,806)**	(15,453)
Change in trade and other receivables		**220**	2,499
Change in inventories		**295**	1,326
Change in VAT receivable		**3,745**	(2,563)
Change in prepayments		**(44)**	(45)
Change in trade and other payables		**(293)**	757
Change in taxes payable		**(102)**	280
Change in advances received		**–**	329
Net cash outflow from operations		**(985)**	(12,870)
Interest paid		**–**	(177)
Net cash outflow from operating activities		**(985)**	(13,047)
Investing activities			
Release of/(placing) the restricted cash deposit		**147**	(76)
Interest received		**72**	120
Purchase of property, plant and equipment		**(1,215)**	(690)
Increase in exploration costs		**–**	(70)
Repayment of/(prepayment for) non-current assets		**1,542**	(5,765)
Net cash flows from/(used in) investing activities		**546**	(6,481)
Financing activities			
Proceeds from borrowings		**–**	18,480
Repayment of borrowings		**–**	(780)
Reimbursement of IPO issuance costs	24	**–**	809
Net cash inflow from financing activities		**–**	18,509
Net decrease in cash and cash equivalents		**(439)**	(1,019)
Cash and cash equivalents, beginning of the year		**502**	1,518
Effect of exchange rate changes		**(6)**	3
Cash and cash equivalents, end of the year	23	**57**	502

The notes on pages 30 to 52 form an integral part of these consolidated financial statements

On behalf of the Board of Directors:

Marat Sarkytbayev
General Director

Muchabbat Baitursynova
Financial Accounting Manager

ShalkiyaZinc N.V.
Consolidated Statement of Changes in Equity
For the year ended 31 December 2009

In thousands of USD	Share capital	Share premium	Foreign currency translation reserve	Net unrealized loss reserve	Equity settled employee benefits reserve	Accumula-ted deficit	Total
At 1 January 2008	83	61,355	3,450	(347)	165	(2,498)	62,208
Net loss for the year	–	–	–	–	–	(42,831)	(42,831)
Other comprehensive loss	–	–	(359)	347	–	–	(12)
Total comprehensive loss	–	–	(359)	347	–	(42,831)	(42,843)
Derecognition of share based payments (Note 25)	–	–	–	–	(165)	–	(165)
Reimbursement of IPO issuance costs (Note 24)	–	809	–	–	–	–	809
At 31 December 2008	83	62,164	3,091	–	–	(45,329)	20,009
Net loss for the year	–	–	–	–	–	(18,357)	(18,357)
Other comprehensive loss	–	–	(2,898)	–	–	–	(2,898)
Total comprehensive loss	–	–	(2,898)	–	–	(18,357)	(21,255)
At 31 December 2009	83	62,164	193	–	–	(63,686)	(1,246)

The notes on pages 30 to 52 form an integral part of these consolidated financial statements

On behalf of the Board of Directors:

Marat Sarkytbayev
General Director

Muchabbat Baitursynova
Financial Accounting Manager

ShalkiyaZinc N.V.
Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

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 at the London Stock Exchange by issuing Global Depository Receipts (GDRs).
The ultimate beneficial shareholders of the Company are as follows:

- Kazakh individuals:
  - Rifat Rizoyev (49.88%);
  - Assylbek Abuov (11.17%);
  - Marat Sarkytbayev and Samat Kazymov (jointly own 13.40%).
- Listed on the London Stock Exchange (25.55%).

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 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.

The consolidated financial statements were authorised for issue on 20 July 2010 by the General Director and Financial Accounting Manager of the Group.

2. Basis of Preparation

Basis of preparation
These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union issued by the International Accounting Standards Board ("IASB").

Political and economic environment
The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within the Republic of Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Going concern
These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. The Group incurred a net loss of USD 18,357 thousand and USD 42,831 thousand for the years ended 31 December 2009 and 2008, respectively. At 31 December 2009, the Group's current liabilities exceeded current assets by USD 34,221 thousand (2008: USD 6,434 thousand). At 31 December 2009, the Group's accumulated deficit amounted to USD 63,686 thousand (2008: USD 45,329 thousand) and, as of that date, the accumulated losses resulted in a negative equity amount of USD 1,246 thousand. The main reason for the net loss is a significant decline in the world market prices for the Group's products and high costs of processing and transportation. As a result the Group suspended its production in November 2008. Also, the Group suspended construction of a new ore processing plant which started in 2008.

2. Basis of Preparation continued

Furthermore, in 2009, the Group is in default under the BTA Bank loan contracts which gives BTA Bank the right to require the accelerated repayment of the borrowings in the amount of USD 31,088 thousand (Note 26).

The Group's ability to continue as a going concern is dependent on the ability to raise financing:

i) to finalize the construction of the new processing plant; and
ii) to repay the Group's borrowings.

Per management's assessment processing of the ore on the existing Kentau concentrator (the "old processing plant") is economically not viable due to the significant physical deterioration of the old processing plant, its low productivity, high maintenance and labor costs, and its distance from the Shalkiya mine. These factors led to the historically high processing and transportation costs that have not been recoverable since the significant decrease in zinc market prices resulting from the 2008 global economic crisis. As at 31 December 2009 the Group's capital expenditure related to the construction of the new processing plant amounted to USD 20,147 thousand, including USD 3,348 thousand in prepayments. Per management's assessment the Group would need an additional USD 88 million to complete the construction. The new processing plant is to be equipped with innovative processing technology and equipment. Projected annual productivity of the new processing plant is 2 million tons, while the actual productivity of the old processing plant was 440 thousand tons. Also, the new processing plant is built at the location of the Shalkiya mine and therefore, unlike the old processing plant would not require transportation of the ore from the mine to the plant and related transportation costs. The Group's management projects a gross margin of 33% at USD 1,999 per ton zinc market price, which means that the operations of the new processing plant would be profitable even at the current level of zinc market prices. Estimated timing required to complete the construction is two years.

The Group's borrowings amounted to USD 31,088 thousand as at 31 December 2009 that are considered as payable on demand due to defaults on the scheduled payments (Note 26).

Thus, there is a material uncertainty related to ability of the Group to raise required financing, which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Management's plan

The completion of the construction of the new processing plant requires financing of approximately USD 88 million. Also, the financing is required to repay the Group's borrowings and to fund operating costs (mainly general and administrative expenses). Per management assessment the total amount of required financing is USD 130 million. The Group's major shareholders, as represented by the Kazakh individuals, and management plan to attract financing through a private placement of additional Group's shares.

Management is currently in negotiations with a potential investor about the conditions of the transaction. Also, management is in negotiations with the Ministry of Industry and New Technologies ("MINT"), a former Ministry of Energy and Mineral Resources ("MEMR"), regarding the MINT's waiver of the priority right on acquisition of the Group's shares. Management believes that probability of the transaction and obtaining the waiver from the MINT and raising additional capital to fund the construction and repayment of the Group's borrowings is highly probable.

Functional and presentation currency

The functional currency of the Company and the Subsidiary is the Kazakhstan Tenge. Determination of the functional currency is based on operational and financing activities, which are all denominated in Tenge, except for sale contracts which are denominated in USD due to the use of world market prices quoted at the LME. The Tenge is not a fully convertible currency outside of the territory of the Republic of Kazakhstan. The translation of Tenge denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not indicate that the Group could or will in the future realize or settle in USD the translated values of these assets and liabilities.

The Group has chosen to present its consolidated financial statements in USD. The Group uses USD for presentation of its financial statements and their publishing on the international markets as the Tenge is not fully convertible and recognizable currency in the international markets. As at the reporting date, the assets and liabilities of the Group are translated into the presentation currency at the rate of exchange ruling at the reporting date and its income statement is translated at the weighted average exchange rate for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). The exchange differences arising on the translation are recognized in other comprehensive income.

3. Significant Accounting Policies

Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year, except as discussed below.
The Group has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations in 2009:

> IFRS 2 Share – based Payment: Vesting Conditions and Cancelations
> IFRS 7 Financial Instruments: Disclosures
> IFRS 8 Operating Segments
> IAS 1 Presentation of Financial Statements
> IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
> IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
> IFRIC 13 Customer Loyalty Programmes
> IFRIC 15 Agreements for the Construction of Real Estate
> IFRIC 16 Hedges of a Net Investment in a Foreign Operation
> Improvements to IFRSs (May 2008)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

IAS 1 Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

Improvements to IFRSs

In May 2008 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

IAS 1 **Presentation of Financial Statements:** Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the consolidated statement of financial position.

IAS 16 **Property, Plant and Equipment:** Replaces the term "net selling price" with "fair value less costs to sell". This amendment had no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using "value in use".

IAS 36 **Impairment of Assets:** When discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". This amendment had no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using "value in use".

Other amendments resulting from Improvements to IFRSs to the standards did not have any impact on the accounting policies, financial position or performance of the Group.

New accounting developments

The following IFRS, IFRIC interpretations and improvements to IFRS are not yet in effect for the year ended December 31, 2009:

> IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
> IFRIC 17 Distributions of Non-cash Assets to Owners
> IFRS 2 Share-based Payments: Group Cash-settled Share-based Payments Transactions
> IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
> IFRIC 18 Transfer of Assets from Customers
> IAS 32 Financial Instruments: Presentation: Classifications of Rights Issues
> Improvements to IFRSs (April 2009)

Management does not expect the above standards and interpretations to have a material impact on the Group's financial position or results of operations.

3. Significant Accounting Policies continued

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its Subsidiary as at 31 December 2009. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the Subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the profit and loss as incurred.

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision is made to proceed with the development, development and other expenditures relating to the project are capitalized and carried at cost with the intention that these will be depreciated by charges against earnings from future mining operations. Development assets are measured at cost. Upon commencement of production, exploration and development costs are depreciated over the life of the mine, which is estimated at a maximum of 25 years.

Depreciation of assets commences when the assets are available for use. Depreciation is charged so as to write off the cost of assets, other than assets under construction and land, over the estimated useful lives of the assets using the straight-line method, on the following basis:

	Years
Capitalized mine development costs	25
Buildings and constructions	10-20
Vehicles	7-9
Machinery and equipment (except for flotation machines)	6-7
Other property, plant and equipment	8-10

The flotation machines are depreciated based on the total production capacity of these machines using the unit of production method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Exploration costs

Expenditures related to the following activities are initially measured at cost and capitalized as exploration assets: acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching; sampling and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

The decision to develop a mine property within a project area is based on the exploration and evaluation results, an assessment of the commercial viability of the property and the availability of financing. Once a decision to proceed with the development is made, capitalized exploration and evaluation expenditures relating to the project are transferred to capital construction in progress as part of the development costs of the mine property.

Expenditures not included in the initial measurement of exploration assets are: development of a mineral resource once technical feasibility and commercial viability of extracting a mineral resource have been established and administration and other general overhead costs. Exploration assets are measured at cost.

Impairment of non–financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

3. Significant Accounting Policies continued

Impairment losses of continuing operations are recognised in the profit and loss in those expense categories consistent with the function of the impaired asset.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit and loss.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, trade and other receivables and available-for-sale investments.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

Trade accounts receivable

Trade accounts receivable, which generally have a short-term, are carried at original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the debts.

Available-for-sale financial investments

Available-for-sale financial investments include debt securities. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the profit and loss in finance costs and removed from the available-for-sale reserve.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

> The rights to receive cash flows from the asset have expired
> The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded as income in the profit and loss.

3. Significant Accounting Policies continued

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, borrowings and dues to the Republic of Kazakhstan.

Subsequent measurement

After initial recognition, the Group's financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit and loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the consolidated statement of comprehensive income.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Offsetting the financial instruments

Assets and liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted-average cost method. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale.

The net cost of production per unit of finished goods is determined by dividing total production cost, allocated in the ratio of the contribution of these products to total relative sales value, by the saleable mine output of finished goods.

Work-in-process is valued at the net unit cost of production based on the percentage of completion method.

Provisions

Site restoration provisions

Site restoration provisions are made in respect of the estimated future costs of mine closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is expensed as incurred and recognized in the statement of operations as a finance cost. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or operating life.

3. Significant Accounting Policies continued

Other provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Revenue

Revenue is recognized when significant risks and rewards associated with the ownership of goods, are passed to the customers, and it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable, net of discounts and Value Added Tax ("VAT").

Value Added Tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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 Group's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is initially recognized at fair value and remeasured at each reporting date.

Taxation

Taxes on income are computed in accordance with the laws of the Republic of Kazakhstan and the Netherlands. Deferred taxes are provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax liabilities are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

> the Group has a legally enforceable right to offset the recognized amounts of current tax assets and current tax liabilities;
> the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously; and
> the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial information but disclosed when an inflow of economic benefits is probable.

Foreign currency translation

Transactions in currencies other than Tenge are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. All translation differences are included in the profit and loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

3. Significant Accounting Policies continued

All other borrowing costs are recognized in the profit and loss in the period in which they are incurred.

Employee benefit obligations

The Group does not have any pension arrangements other than the state pension system of the Republic of Kazakhstan, which requires contributions by employees calculated as a percentage of current gross salary payments. Such contributions form part of salaries and are expensed in the profit and loss.

4. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these judgements, assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Useful economic lives of property, plant and equipment

The Group's mining and non-mining property, plant and equipment are depreciated on the unit of production method or straight-line basis over their useful economic lives or life of mine whichever is shorter. The unit of production method is applied to the flotation machines based on their estimated production capacity of 72 million tons over the useful life. Production capacity of the flotation machines is estimated by the reference to the historical performance and manufacturer specifications. Management periodically reviews the appropriateness of the useful economic lives of the assets. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Provision for mine abandonment and site restoration

The Group's mining activities are subject to various laws and regulations governing the protection of the environment. The Group estimates the provision for mine abandonment and site restoration obligations based on management's understanding of the current legal requirements in various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for mine abandonment and site restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Impairment of assets

Note 17 outlines the significant assumptions made in performing impairment testing of non-current assets. Changes in these assumptions may alter the results of impairment testing, impairment charges recorded in the profit and loss and the resulting carrying values of assets.

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgement is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. Details are contained in Note 21.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2009. As at 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

In assessing tax and legal risks, management considers the known areas of tax or legal positions which the Group would not appeal or does not believe it could successfully appeal as probable obligations, if assessed by tax or legal authorities. Such determinations inherently involve significant judgement and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax or legal proceedings and the outcome of ongoing compliance audits by tax authorities.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The Group has tax loss carry forwards amounting to USD 36,228 thousand (2008: USD 43,180 thousand). These losses relate to Subsidiary, can be carried forward for seven years from the date of origination and may not be used to offset taxable income elsewhere in the Group. The Subsidiary has no taxable temporary differences nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets.

4. Significant Accounting Judgements, Estimates and Assumptions continued

If the Group was able to recognise all unrecognised deferred tax assets, loss would decrease by USD 5,434 thousand.

Contingencies

By their nature, contingencies will only be resolved when one or more future event occurs or fails to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

Fair value of derivative

The fair value of derivative is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions at each balance sheet date. The Group uses discounted cash flow analysis for valuation of derivatives that are not traded in active markets.

5. Revenue

In thousands of USD	2009	2008
Sales of zinc concentrate	–	9,243
Sales of lead concentrate	–	1,894
	–	11,137

As discussed in Note 1, the Group suspended production and sales activities in November 2008.

6. Cost of Sales

In thousands of USD	2009	2008
On–mine and processing costs (Note 7)	–	13,092
Ore transportation expenses	–	4,036
Other expenses	–	1,172
Operating cost before depreciation	–	18,300
Depreciation	–	2,840
Cost of production	–	21,140
Change in finished goods and work–in–progress	–	66
Cost of sales	–	21,206

7. On-mine and processing costs

In thousands of USD	2009	2008
Consumables and spare parts	–	5,810
Labour	–	3,066
Power and other utility costs	–	2,751
Maintenance of property, plant and equipment	–	575
Taxes other than income tax	–	390
Third party services	–	500
	–	13,092

8. General and Administrative Expenses

In thousands of USD	2009	2008
Suspension losses	–	887
Payroll and related taxes (Note 10)	**1,293**	2,849
Consulting services	**405**	1,659
Depreciation	**2,599**	292
Rent	**82**	148
Communication	**22**	175
Materials	**150**	179
Bank charges	**7**	106
VAT impairment	–	4,311
Write off to net realizable value and provision for obsolete inventory	–	273
(Reversal of)/provision for doubtful accounts and impairment of prepayments and available-for-sale investments	**(419)**	3,113
Other	**1,231**	2,087
	5,370	16,079

Suspension losses of USD 887 thousand represent expenses incurred on the suspension of the Shalkiya mine and Kentau concentrator in November 2008. Suspension losses include payments to employees upon termination of their employment and mine security personnel payroll of USD 188 thousand, depreciation of property, plant and equipment of USD 515 thousand and mine maintenance expenses of USD 184 thousand.

9. Distribution Costs

In thousands of USD	2009	2008
Railway services	–	420
Packaging expenses	–	98
Other	–	80
	–	598

10. Personnel expenses

In thousands of USD	2009	2008
Salaries and wages	**1,191**	5,244
Payroll taxes	**102**	859
	1,293	6,103

11. Average Number of Employees

In thousands of USD	2009	2008
Directors	**4**	8
Kentau concentrator	**33**	334
Shalkiya mine	**68**	519
Administrative personnel	**22**	79
	127	940

12. Depreciation

In thousands of USD	2009	2008
Mine development costs	**92**	108
Buildings and construction	**209**	477
Machinery and production equipment	**2,152**	2,918
Vehicles	**81**	68
Other	**65**	76
	2,599	3,647

13. Finance Income and Costs

In thousands of USD	2009	2008
Finance income		
Interest income related to available-for-sale investments	**72**	58
	72	58
Finance costs		
Interest expense on BTA Bank borrowings	**4,507**	3,720
Unwinding of discount on provision for future site restoration (Note 27)	**159**	274
Unwinding of discount on long-term trade payables	**517**	326
Unwinding of discount on due to the Republic of Kazakhstan (Note 28)	**259**	245
	5,442	4,565

14. Income tax

Income tax (expense)/benefit comprised the following:

In thousands of USD	2009	2008
Deferred income tax (expense)/benefit	**(4,577)**	4,334
Adjustment in respect of current income tax of previous years	**(58)**	–
	(4,635)	4,334

A numerical reconciliation between tax expense/(benefit) and the result of accounting loss multiplied by the applicable tax rate was as follows for the year ended 31 December:

In thousands of USD	2009	2008
Loss before income tax	**(13,722)**	(47,165)
Statutory tax rate	**20%**	30%
Theoretical income tax benefit at statutory tax rate	**(2,744)**	(14,150)
Change in recognized tax losses	**5,432**	(698)
Non-taxable income/non-deductible expenses	**1,949**	2,761
Adjustment in respect of current income tax of previous years	**58**	–
Change in deferred tax assets resulting from changes in tax rate	**(60)**	7,753
Income tax expense/(benefit)	**4,635**	(4,334)

14. Income tax continued

Deferred income tax at 31 December relates to the following:

In thousands of USD	Consolidated statement of financial position 2009	2008	Recognized in profit and loss 2009	2008
Deferred tax assets				
Property, plant and equipment and exploration costs	**532**	1,788	**(1,256)**	1,788
Long-term payable	**–**	95	**(95)**	(194)
Allowance for doubtful debts	**23**	62	**(39)**	(108)
Tax losses carried forward	**–**	5,432	**(5,432)**	1,734
Accruals and provisions	**553**	203	**350**	(64)
	1,108	7,580	**(6,472)**	3,156
Deferred tax liabilities				
Property, plant and equipment and exploration costs	**–**	–	**–**	967
Intercompany loan	**(191)**	(847)	**656**	209
	(191)	(847)	**656**	1,176
Total net deferred tax assets	**917**	6,733	**–**	–
Deferred tax (expense)/benefit	**–**	–	**(5,816)**	4,332

At 31 December 2009 the Company changed its assessment of future recoverability of the tax losses arising in prior years. The change in the assessment was due to the recent change in the tax legislation relating to tax loss carry forward period and varying interpretations of such change, as well as the uncertainty regarding availability of future taxable profits against which tax losses carried forward could be utilized during the period prescribed by the tax legislation, effective before 1 January 2009. As a result of management's re-assessment the deferred tax assets on the tax losses carried forward were derecognized which resulted in the deferred income tax expense of USD 5,432 thousand.

The movements in the net deferred tax assets were as follows for the years ended 31 December:

In thousands of USD	2009	2008
At 1 January	**6,733**	2,401
Charged to the profit and loss	**(4,577)**	4,334
Translation difference	**(1,239)**	(2)
At 31 December	**917**	6,733

In December 2008 the Government of the Republic of Kazakhstan approved amendments to the Tax Code effective 1 January 2009, in accordance to which the statutory income tax rates are changed to 20% in 2009, 17.5% in 2010 and 15% from 2011 onwards. In accordance with further amendments to the Tax Code made in November 2009 income tax rate will be 20% in 2010, 2011 and 2012.

The Group's calculation of deferred tax and income tax expense reflects these changes in the tax law.

15. Property, Plant and Equipment

In thousands of USD	Land	Mine development costs	Buildings and construction	Machinery and production equipment	Vehicles	Other	Construction in progress	Total
Cost								
At 1 January 2008	48	3,992	5,711	25,751	557	712	25,633	62,404
Additions	–	–	1,189	1,599	1	61	2,467	5,317
Transfers	–	–	192	3,293	4	7	(3,496)	0
Disposals	–	(82)	(52)	(331)	–	(3)	(32)	(500)
Translation difference	(1)	(15)	(24)	(122)	(3)	(3)	(102)	(270)
At 31 December 2008	47	3,895	7,016	30,190	559	774	24,470	66,951
Additions	–	(782)	–	3	–	7	1,205	433
Disposals	–	–	(70)	–	–	–	–	(70)
Translation difference	(9)	(726)	(1,303)	(5,610)	(103)	(143)	(4,554)	(12,448)
At 31 December 2009	**38**	**2,387**	**5,643**	**24,583**	**456**	**638**	**21,121**	**54,866**
Accumulated depreciation and impairment								
At 1 January 2008	–	(684)	(1,282)	(6,343)	(127)	(228)	–	(8,664)
Depreciation charge	–	(108)	(477)	(2,918)	(68)	(76)	–	(3,647)
Impairment (Note 17)	–	–	(1,569)	(11,544)	(48)	(124)	(1,207)	(14,492)
Disposals	–	–	35	212	–	3	–	250
Translation difference	–	3	13	87	1	2	6	112
At 31 December 2008	–	(789)	(3,280)	(20,506)	(242)	(423)	(1,201)	(26,441)
Depreciation charge	–	(92)	(209)	(2,152)	(81)	(65)	–	(2,599)
Disposals	–	–	25	–	–	–	–	25
Translation difference	–	147	611	3,824	46	80	227	4,935
At 31 December 2009	**–**	**(734)**	**(2,853)**	**(18,834)**	**(277)**	**(408)**	**(974)**	**(24,080)**
Net book value								
At 31 December 2008	47	3,106	3,736	9,684	317	351	23,269	40,510
At 31 December 2009	**38**	**1,653**	**2,790**	**5,749**	**179**	**230**	**20,147**	**30,786**

Property, plant and equipment with a net carrying value of USD 15,956 thousand and USD 17,795 thousand, at 31 December 2009 and 31 December 2008, respectively, have been pledged to secure Group's borrowings (Note 26).

Due to the suspension of the operating activities in November 2008, the Group stand-by its mining and processing related property, plant and equipment.

In 2009, additions to property, plant and equipment include the amount of USD 1,040 thousand related to the decrease in provision for future site restoration due to the change in estimate of site restoration costs (2008: increase of USD 1,192 thousand) (Note 27).

In 2008, the Group was in default of scheduled payments to a supplier of fixed assets. In 2009 and 2008, the supplier imposed limitations on the use of delivered equipment with the carrying amount of USD 3,439 thousand (Note 29).

16. Exploration Costs

In thousands of USD	2009	2008
Balance at the beginning of the period	–	1,494
Additions	–	70
Change in estimate (Note 28)	**(1,095)**	–
(Reversals of)/impairment (Note 17)	**1,095**	(1,553)
Translation difference	–	(11)
Balance at the end of the period	–	–

17. Impairment

At 31 December 2009 and 2008 the Group performed impairment test for its property, plant and equipment related to the Shalkiya mine and new processing plant (the Shalkiya CGU), the assets related to the Kentau concentrator and exploration costs related to the Talap field.

The Shalkiya CGU

The recoverable amount of the Shalkiya CGU has been determined based on a value in use ("VIU") calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Cash flows beyond the five-year timeframe are extrapolated by applying a flat growth rate for the term of the Shalkiya Subsurface Use Contract. The Group used WACC of 20.19% to discount cash flows (2008: 17.14%). No impairment was recorded for the Shalkiya CGU as its VIU was higher than its carrying value.

The Kentau concentrator and the Talap exploration costs

The global economic recession has resulted in, among other things, reduced zinc market prices and, as a result, suspension of the Group's production and selling activities (refer to the going concern discussion in Note 2). Furthermore, uncertainties regarding the future operation of the Kentau concentrator and high processing and transportation costs resulted in reassessment of the profitability of the Talap field. As a result, at 31 December 2008, the Group fully impaired the Kentau concentrator and Talap exploration costs with the carrying value of related property, plant and equipment and exploration costs amounted to USD 16,045 thousand due to the management's decision to cease production on the Kentau concentrator.

In 2009, due to the changes in expected timing of settlement of dues to the Republic of Kazakhstan (Note 28), the Group decreased the carrying value of Talap exploration costs and reversed related impairment of USD 1,095 thousand (Note 16).

18. Vat Receivable

At 31 December 2009 VAT receivable amounted to USD 3,449 thousand (2008: USD 6,647 thousand). In 2009 the Group received a reimbursement of USD 2,327 thousand from the state budget. At 31 December 2009, VAT receivable of USD 1,427 thousand is classified within non-current assets as the Group expects reimbursement of this VAT receivable in 2011.

19. Prepayments

In thousands of USD	2009	2008
Prepayments for equipment and machinery	**3,370**	6,013
Prepayments for consumables and services	**678**	878
Less: Impairment	**(303)**	(773)
	3,745	6,118
Classified as:		
Non-current assets	**3,348**	5,765
Current assets	**397**	353
	3,745	6,118

The movements in the impairment allowance were as follows for the years ended 31 December:

In thousands of USD	2009	2008
Allowance at the beginning of the year	**(773)**	(163)
Charge for the year	–	(610)
Write offs	**133**	–
Recovered	**196**	–
Translation difference	**141**	–
Allowance at the end of the year	**(303)**	(773)

20. Inventories

In thousands of USD	2009	2008
Stores and materials (at cost)	**3,115**	3,811
Less: Allowance for obsolete and slow-moving inventories	**(447)**	(550)
	2,668	3,261
Finished goods (at net realizable value)	**36**	40
Work-in-process (at net realizable value)	**2,552**	2,250
	5,256	5,551

In 2008, the write down of finished goods and work-in-process recognized as expense amounted to USD 1,035 thousand (2009: nil).

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended 31 December:

In thousands of USD	2009	2008
Allowance at the beginning of the year	**(550)**	(300)
Charge for the year	**–**	(273)
Write offs	**–**	23
Translation difference	**103**	–
Allowance at the end of the year	**(447)**	(550)

21. Trade and Other Receivables

In thousands of USD	2009	2008
Other accounts receivable	**447**	275
Trade receivables	**–**	467
Less: Allowance for doubtful debts	**(113)**	(411)
	334	331

Other accounts receivable include receivables from services rendered to third parties. The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

In thousands of USD	2009	2008
Allowance at the beginning of the year	**(411)**	(104)
Charge for the year	**–**	(392)
Recovered	**223**	–
Write offs	**–**	85
Translation difference	**75**	–
Allowance at the end of the year	**(113)**	(411)

As at 31 December, the ageing analysis of trade and other receivables is as follows:

			Past due but not impaired				
In thousands of USD	Total	Neither past due nor impaired	<30 days	30–90 days	90–120 days	120–360 days	>360 days
2009	**334**	**–**	**–**	**–**	**–**	**334**	**–**
2008	331	4	52	275	–	–	–

At 31 December, the Group's trade and other receivables were denominated in Tenge.

22. Available-for-sale Investments

In thousands of USD	2009	2008
BTA Bank bonds	–	2,111
Less: Impairment	–	(2,111)
	–	–

On 13 March 2007 the Group purchased BTA Bank bonds for a consideration of USD 2,085 thousand. The maturity date of bonds is 29 June 2036. At 31 December 2009 and 31 December 2008 bonds have been pledged to secure BTA Bank borrowings (Note 26). In 2008, due to the financial difficulties experienced by BTA Bank the Group recognized impairment on the carrying value of these investments as it is unlikely that the asset would be recoverable. At 31 December 2008, fair value losses of USD 376 thousand recorded in equity were reclassified to the consolidated statement of comprehensive income due to impairment of these investments.

23. Cash and cash equivalents

In thousands of USD	2009	2008
Cash in banks, USD denominated	**27**	122
Cash on hand, KZT denominated	**2**	40
Cash in banks, KZT denominated	–	7
Cash in banks, EUR denominated	**28**	333
	57	502

24. Equity

The authorized share capital of ShalkiyaZinc N.V. is EUR 225,000, divided into 22,500,000 shares each with a nominal value of EUR 0.01 per share. The issued share capital of ShalkiyaZinc N.V. is EUR 56,500 divided into 5,650,000 shares each with a nominal value of EUR 0.01 per share, equivalent to USD 83,219 at an exchange rate of USD 1.4729.

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 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.

Loss per share

The numerator for the calculation of the basic loss per share for the year ended 31 December 2009 is the loss after tax of USD 18,357 thousand (2008: USD 42,831 thousand) and the denominator for the calculation of the basic loss per share is 5,650,000.

	For the year ended	
	31 December 2009	31 December 2008
Loss per share, in US cents	**(324.90)**	(758.07)
Diluted loss per share, in US cents	**(324.90)**	(758.07)
Loss attributable to ordinary shareholders, in thousands of USD	**(18,357)**	(42,831)
Issued ordinary shares at the end of the year	**5,650,000**	5,650,000

Reimbursement of IPO issuance costs

Reimbursement of IPO issuance costs was related to the amount paid by Bank of New York in accordance with the letter-agreement for depositary services. In accordance with this letter-agreement Bank of New York was obliged to reimburse the Company up to USD 70,000 per million of depository receipts outstanding upon completion of the IPO stabilization period towards the Company's establishment, maintenance, investor relations, legal fees, exchange listing and other GDR program-related services upon establishment. In 2008, Bank of New York paid USD 809 thousand to the Company. This reimbursement was recorded in equity as an increase in the share premium.

25. Equity Settled Employee Benefits Reserve

The Group operated an ownership-based compensation scheme for the Chairman of the Supervisory Board. In accordance with the provisions of the plan, he was granted options to purchase Ordinary Shares. For option series granted at 7 December 2006, the exercise price was equal to the offering price of the GDRs at 7 December 2006 and for option series granted at any date other than 7 December 2006, the exercise price was the average of the closing share prices of ShalkiyaZinc on each of the thirty days (30) prior to the relevant grant date. Each share option converts into one Ordinary Share on exercise. No amounts were paid or payable by the recipient on receipt of the option.

The options carried neither rights to dividends nor voting rights. Options could be exercised at any time from the date of vesting to the date of their expiry. Vesting was conditional upon the working for the Company over the two years. The number of granted options was calculated from the USD amount of five times the option's holder annual compensation as of the relevant grant date divided by the relevant exercise price and was subject to approval by the Remuneration Committee. In 2008, the Chairman of the Supervisory Board resigned from the Company. This resignation was considered as cancellation of the scheme on forfeiture, and accordingly, any previously recognized losses were reversed in the consolidated statement of comprehensive income.

The Group had no an ownership-based compensation scheme in 2009.

26. Borrowings

In thousands of USD	**2009**	2008
Opening balance	**30,499**	10,484
Borrowings granted	**–**	18,480
Interest expensed for the period	**3,878**	2,694
Foreign exchange difference	**93**	(75)
Translation difference	**(3,382)**	(127)
	31,088	31,456
Less: amount repaid	**–**	(957)
Closing balance	**31,088**	30,499
Less: current portion shown within current liabilities	**(31,088)**	(7,866)
Long-term borrowings	**–**	22,633

The borrowings are due to BTA Bank. The borrowings are secured by the Group's property, plant and equipment with the carrying amount of USD 16,549 thousand at 31 December 2009 (2008: USD 17,795 thousand) and available-for-sale investments with the nil carrying amount at 31 December 2009 and 2008.

In 2009, the Group failed to make scheduled payments due to BTA Bank. The failure to make scheduled payments of either principal or interest constitutes an event of default under the loan agreements with BTA Bank. The loan agreements also provide for a cross-default in case of non-performance or non-payments under contracts with third parties in the amount exceeding USD 300 thousand. The Group failed to make scheduled payments of USD 1,722 thousand to a supplier of equipment. Under the loan agreements both default and cross-default give BTA Bank the right to accelerate repayment of the BTA Bank loan. Therefore, the whole amount of the debt was reclassified to current liabilities as at 31 December 2009.

The borrowings comprised the following at 31 December:

In thousands of USD	**2009**	2008
Fixed interest rate borrowings	**30,456**	29,677
Weighted average interest rate	**16.00%**	16.00%
Variable interest rate borrowings	**632**	822
Weighted average interest rate	**11.55%**	7.51%

At 31 December the borrowings were denominated in various currencies as follows:

In thousands of USD	**2009**	2008
US Dollar	**13,844**	12,149
Tenge	**16,596**	17,721
Rubles	**648**	629
	31,088	30,499

27. Provision for Future Site Restoration

In thousands of USD	2009	2008
At 1 January	**3,697**	2,241
Change in estimate	**(1,040)**	1,192
Unwinding of discount	**159**	274
Translation difference	**(685)**	(10)
At 31 December	**2,131**	3,697
Restricted cash on a special deposit	**–**	147
Unfunded portion of the provision	**2,131**	3,550

The provision for future site restoration relates to the contractual obligations contained in the Shalkiya Subsurface Use Contract to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage. The majority of these costs are expected to be incurred towards the end of the life of the mine. The extent and cost of future remediation programs are inherently difficult to estimate. They depend on the estimated life of the mines, the scale of any possible contamination and the timing and extent of corrective actions.

The following are the key assumptions on which the discounted carrying amount of the obligation is based in 2009:

> The total undiscounted amount of estimated future cash expenditure to be incurred is 19,000,987 thousand Tenge (USD 128,074 thousand);

> The expected timing of the majority of the future cash expenditure is expected to take place at the end of the Shalkiya Subsurface Use Contract in 2046;

> The long-term inflation rate is 3.9% per annum (2008: 5%);

> The discount rate applied is 8% per annum (2008: 8%).

28. Due to the Republic of Kazakhstan

In thousands of USD	2009	2008
At 1 January	**2,200**	1,906
Change in estimate	**(1,095)**	–
Arising during the year	**258**	–
Unwinding of discount	**259**	245
Foreign exchange differences	**6**	49
At 31 December	**1,628**	2,200
Less: current portion shown within current liabilities	**(256)**	–
Long-term portion of due to the Republic of Kazakhstan	**1,372**	2,200

The Group accrued the discounted carrying amount of its obligation to reimburse the Government of Kazakhstan for the historical cost of geological studies performed by the Government in respect of the Talap deposit.

The following is a summary of the key assumptions on which the discounted carrying amount of the obligation is based:

> The total undiscounted amount of historical costs outlined in the Talap Subsurface Use Contract is 565,252 thousand Tenge (USD 3,810 thousand).

> The reimbursement of the obligation is expected to occur in 40 equal, quarterly instalments, commencing on 1 January 2014 and ending on 31 December 2023. As at 31 December 2008 the Group expected the commencing of reimbursement on 1 January 2009. This change in estimate resulted in reduction of the carrying value of the obligation by USD 1,095 thousand.

> The discount rate applied is 12% per annum.

29. Trade and Other Payables

In thousands of USD	2009	2008
Payables for equipments and construction materials	**5,918**	4,757
Accrued expenses	**3,003**	2,148
Due to the Republic of Kazakhstan	**256**	–
Trade accounts payable for services	**125**	1,333
Payables to employees	**117**	565
Other	**673**	180
	10,092	8,983
Less: Due within one year	**(10,092)**	(7,096)
Long-term payables	**–**	1,887

30. Financial Instruments and Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of bank borrowings, dues the Republic of Kazakhstan, cash and short-term deposits as well as trade and other receivables and trade and other payables.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group's management reviews and agrees policies for managing each of these risks which are summarized below.

Interest rate risk

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.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	2009		2008	
In thousands of USD	Increase/ decrease in basis points	Effect on profit before tax	Increase/ decrease in basis points	Effect on profit before tax
US Dollar	**+100**	**(6)**	+55	(5)
	-25	**2**	-55	5

* 1 basis point = 0.01%

Currency risk

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 following table demonstrates the sensitivity to reasonably possible changes in the exchange rates, with all other variables held constant, of the Group's loss before income tax (due to changes in the fair value of monetary assets and liabilities).

2009		
US Dollar	**+19.5%**	**(3,363)**
	-19.5%	**3,363**
EUR	**+21.8%**	**(656)**
	-21.8%	**656**
RUR	**+24.3%**	**(146)**
	-24.3%	**146**

2008		
US Dollar	+25.0%	(4,280)
	+40.0%	(6,849)
EUR	+30.0%	(300)
	+40.0%	(399)
RUR	+10.0%	(63)
	-10.0%	63

30. Financial Instruments and Financial Risk Management Objectives and Policies continued

Credit risk

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.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments.

In thousands of USD	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after five years	Total
At 31 December 2009						
Borrowings	**31,088**	**–**	**–**	**–**	**–**	**31,088**
Trade and other accounts payable	**9,836**	**256**	**–**	**–**	**–**	**10,092**
Due to the Republic of Kazakhstan	**–**	**–**	**–**	**381**	**3,429**	**3,810**
	41,180	**256**	**–**	**381**	**3,429**	**45,248**
At 31 December 2008						
Borrowings	–	2,123	9,179	29,773	–	41,075
Trade and other accounts payable	7,085	281	599	2,523	–	10,488
Due to the Republic of Kazakhstan	–	–	–	1,905	1,905	3,810
	7,085	2,404	9,778	34,201	1,905	55,373

In 2009, the Group classified borrowings as payable on demand due to the failure to make scheduled payments of principal and interest which constitutes an event of default under the loan agreements with BTA Bank. Therefore, the whole amount of the debt was reclassified to current liabilities as at 31 December 2009. As discussed in Note 2 management plans to attract financing through a private placement of additional Group's shares and repay the borrowings.

Commodity price risk

The Group is exposed to the effect of fluctuations in the prices of zinc and lead, which is quoted in USD on international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of zinc and lead prices in the future. The Group has historically not hedged its exposure to the risk of fluctuations in the price of its products.

Fair values of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

	Carrying amount		Fair value	
In thousands of USD	**2009**	2008	**2009**	2008
Financial assets				
Cash and cash equivalents	**57**	502	**57**	502
Trade and other receivable	**334**	331	**334**	331
Financial liabilities				
Borrowings	**31,088**	30,499	**31,088**	29,960
Trade and other payables	**10,092**	8,983	**10,092**	8,983
Due to the Republic of Kazakhstan	**1,372**	2,200	**1,372**	2,200

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing market interest rates.

30. Financial Instruments and Financial Risk Management Objectives and Policies continued

Capital management

As discussed in Note 2, significant uncertainties exist regarding the Group's ability to continue as a going concern. As such the primary objective of the Group's capital management is to ensure that the Group liquidity is improved and adequate funds are obtained for financing the plans for construction of the new processing plant and repayment of bank borrowings. As of 31 December 2009, the accumulated losses resulted in a negative equity amount of USD 1,246 thousand. Management plans to hold a general meeting to discuss capital management measures in 2010. Management's plans are described in Note 2.

The Group's manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2009.

31. Commitments and Contingencies

Commitments

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.

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 31 December 2009 and 2008, 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.

Capital and operational expenditures

In accordance with the working program under the Shalkiya Subsurface Use Contract the Group has the following commitments:

Year	Capital expenditures	Operational expenditures
2012	2,436	2,538
2013	1,236	2,637
2014–2046	20,750	76,097
Total	**24,422**	**81,272**

The working program for the development and production under the Talap Subsurface Use Contract has not been yet approved by the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.

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

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2009. As at 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

31. Commitments and Contingencies continued

Environmental matters

The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. Other than that disclosed below, management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Group's financial position, consolidated statement of operations or consolidated cash flows. In 2009 and 2008, the Group was a defendant in a legal action involving alleged environmental pollution in the amount of USD 1,410 thousand. Management believes that the action can be successfully defended and therefore no losses will be incurred and no provision has been made in these consolidated financial statements for the legal claim.

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.

On 4 March 2009, the Shalkiya and Talap Subsurface Use Contracts were terminated by the MEMR accusing the Company 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 Company 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 Company'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. On 19 May 2009, the Specialized Interregional Court of Astana city determined that termination of the Shalkiya and Talap Subsurface Use Contracts by the Government of the Republic of Kazakhstan was not legal and reversed the termination of the Shalkiya and Talap Subsurface Use Contracts. The Group's management expects that the Shalkiya and Talap Subsurface Use Contracts will be resumed.

32. 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.

Compensation of key management personnel

Key management personnel comprise members of the Group's management and members of Supervisory Board, totalling four persons at 31 December 2009 (31 December 2008: eight 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 279 thousand for the year ended 31 December 2009 (31 December 2008: USD 695 thousand). There were no payments to the Non-Executive Directors in 2009 and 2008, except for those included in the table below.

Names	Position	**2009**	2008
Sarkytbaev Marat	General Director	**155**	286
Azelgareyeva Ramilya	Director of Finance and Economics Department	**36**	56
Alimkhanov Talgat	General Director of LLP "Zhety Kazyna"	**–**	–
Bisembayev Baurzhan	Member of JSC "KOR"Board	**–**	–
Tokbaev Bagdat	Former Finance Director	**–**	99
Abuov Asylbek	Deputy General Director	**52**	88
Svoik Yelena	Current Finance Director	**–**	69
Taimov Gabit	Economic Security Director	**–**	79
Kazymov Samat	Business Development Director	**36**	80
Graham McCartney	Member of Supervisory Board	**–**	(62)
Total		**279**	695

33. Auditors' remuneration

In thousands of USD	**2009**	2008
Audit and review of financial statements of the Group	**110**	310

34. Subsequent Events

Following reorganization of the MEMR into MINT in March 2010, the Group applied to the court regarding termination of the Shalkiya and Talap Subsurface Use Contracts (Note 31). 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.

On 10 June 2010, the Subsidiary received a letter from BTA Bank informing that BTA Bank has no plan to execute its rights over pledged assets, to accrue penalties and to require accelerated repayment of principal and interest due to BTA Bank as at 31 December 2009 (Note 26).

Company Income Statement of ShalkiyaZinc N.V.

For the year ended 31 December 2009

(Before Proposed Appropriation Of Results)

In thousands of USD	Notes	2009	2008
Result of subsidiary after taxation	2	**(32,393)**	(29,795)
Other income and expenses	5	**14,036**	(13,036)
Net loss		**(18,357)**	(42,831)

Company Balance Sheet Statement of ShalkiyaZinc N.V.
As at 31 December 2009

	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Financial fixed assets	2	**9,276**	32,249
		9,276	32,249
Current assets			
Short-term portion of VAT receivable		**19**	80
Short-term loan	2	**2,674**	2,900
Accounts receivable	3	**2,232**	1,929
Cash and cash equivalents	4	**49**	444
		4,974	5,353
TOTAL ASSETS		**14,250**	37,602
Shareholders' equity and liabilities			
Shareholders' Equity			
Share capital	6	**83**	83
Share premium		**62,164**	62,164
Legal reserves	7	**193**	3,091
Accumulated losses		**(63,686)**	(45,329)
		(1,246)	20,009
Non-current liabilities			
Derivative liability	9	**14,829**	16,735
		14,829	16,735
Current liabilities			
Taxes payable		**–**	7
Accruals		**667**	851
		667	858
TOTAL EQUITY AND LIABILITIES		**14,250**	37,602

ShalkiyaZinc N.V.
Notes to the Company Financial Statements
For the year ended 31 December 2009

1. Presentation of financial statements and principal accounting policies

The description of the activities of Shalkiya N.V. (the "Company") and the Company structure, as included in the notes to the consolidated financial statements, also apply to the Company financial statements.

In accordance with section 2:362 Part 8 of the Netherlands Civil Code, the Company has prepared its Company financial statements in accordance with accounting principles generally accepted in the Netherlands, applying the accounting policies as adopted in the consolidated financial statements (IFRS). Investments in subsidiaries are stated at net equity value, as the Company effectively exercises control over them. For more information on the accounting policies applied, and on the notes to the consolidated financial statements, please refer to pages 30 to 52.

The total equity and accumulated loss in the Company financial statements is equal to the consolidated equity.

In accordance with section 402 of Part 9 of Book 2 of the Netherlands Civil Code, a condensed income statement is included in these financial statements.

2. Financial fixed assets

Financial fixed assets consist of the following:

In thousands of USD	2009	2008
Long-term loan	**56,325**	53,804
Investment in the Subsidiary	**(47,049)**	(21,555)
	9,276	32,249

The negative equity value of the investment in the Subsidiary is considered to be a provision on the long-term loan due from the Subsidiary. The movement of the long-term loan is as follows:

In thousands of USD	2009	2008
Opening balance at 1 January December	**56,704**	53,231
Repayments over the year	**(1,000)**	–
Restatement of loan part	**2,521**	3,073
Borrowing granted during the year	**774**	400
Closing balance ate 31 December	**58,999**	56,704
Less: current portion shown under current assets	**(2,674)**	(2,900)
Non-current portion	**56,325**	53,804

Short-term loan in amount of USD 1,900 thousand is payable on demand and bears interest of 12% per annum. The new loan with total amount of USD 774 thousand is short-term and bears no interest.

Long-term loan amount of USD 56,325 thousand bears an annual interest rate based upon the pre-tax profit earned by the Subsidiary. The effective interest rate for the loans is 9.75%. The loans are repayable in 2061. The loans are unsecured and repayment is subordinated to the rights of other creditors.

The investment in the Subsidiary is relating to ShalkiyaZinc Ltd LLP and is stated at net equity value, as the Company effectively exercises significant influences over the Subsidiary.

2. Financial fixed assets continued

The movements of the investment in the Subsidiary were as follows:

In thousands of USD	
Balance as at 1 January 2008	
Book value	8,252
Movements 2008	
Asset revaluation reserve	347
Cumulative translation adjustment	(359)
Result of the Subsidiary for the period	(29,795)
Balance as at 31 December 2008	(21,555)
Book value	
Movements 2009	
Cumulative translation adjustment	6,899
Result of the Subsidiary for the period	(32,393)
Balance as at 31 December 2009	
Book value	(47,049)

3. Accounts Receivable

In thousands of USD	**2009**	2008
Receivable from the Subsidiary	**2,232**	1,929
	2,232	1,929

4. Cash and Cash Equvalents

In thousands of USD	**2009**	2008
Cash in banks, USD denominated	**21**	333
Cash in banks, EUR denominated	**28**	111
	49	444

5. Other income and expenses

In thousands of USD	**2009**	2008
Income/(expenses) on loans	**4,689**	(11,690)
Interest income on deposits	**–**	10
Other expenses	**(464)**	(1,359)
Foreign exchange gain	**9,811**	3
	14,036	(13,036)

6. Shareholders' Equity

For the statement of change in consolidated equity for the year ended 31 December 2009, refer to page 29.

7. Legal reserve

In thousands of USD	**2009**	2008
Legal reserve at January 1	**3,091**	3,103
Assets revaluation reserve	**–**	347
Cumulative translation adjustment	**(2,898)**	(359)
Legal reserve at December 31	**193**	3,091

These reserves are not distributable.

8. Derivative liability

The derivative liability is related to the loan given to the Subsidiary (Note 2). At 31 December 2009 the amortized cost of the loan amounted to USD 56,325 thousand (2008: USD 53,804 thousand). The loan bears an annual interest rate based upon the pre-tax profit earned by the Subsidiary. The effective interest rate for the loan is 9.75%. The loan is repayable in 2061. The loan is unsecured and repayment is subordinated to rights of other creditors.

The Company designated the "profit linking feature" within the Parent Company debt as an embedded derivative and classified it as non-current liability as the debt to which the derivative is linked is repayable in 2061. This feature is not closely related to the debt host contract and therefore requires separation and measurement at fair value through profit and loss. The embedded derivative has been classified at fair value through profit and loss.

At 31 December 2009 the fair value of the derivative liability of USD 14,829 thousand (2008: USD 16,735 thousand) was determined using the discounted cash flow analysis. The Company used 12% discount rate which equals the prevailing rates of return for instruments with the substantially the same terms and characteristics, such as currency, credit quality and principal repayment.

SHALKIYAZINC N.V. BOARDS

SUPERVISORY BOARD

Marat Sarkytbayev
Ramilya Azelgareyeva
Alimhanov Talgat
Bisembayev Baurzhan

Delft
20 July 2010

ShalkiyaZinc N.V.
Statutory Seat Delft

Other information

Statutory provision with respect to appropriation of results

According to the Company's Articles of Association, the Company's result is freely at the disposal of the shareholders, provided that total shareholders' equity exceeds the called-up capital of the Company, increased by legal and statutory reserves.

Proposed appropriation of results

The management board proposes to add the net loss over the period 6 November 2006 up to 31 December 2009, in full to the accumulated losses.

Directors' interests

Marat Sarkytbayev and Samat Kazymov, Assylbek Abuov and Rifat Rizoyev respectively hold 13.40%, 11.17% and 49.88% of the issued share capital of the Company after the Global offer.

Notes

Notes

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