ShalkiyaZinc N.V.

Annual Report and accounts for the year ended 31 December 2010

CONTENTS

GROUP HIGHLIGHTS

REVENUE	**Reported Revenue**	
	2010: nil	
	2009: nil	
PROFITABILITY	**Total comprehensive loss**	**EBITDA**
	2010: USD (14.706) mln	2010: USD (8,229) mln
	2009: USD (20.083) mln	2009: USD (8,589) mln
	Loss per share	**EBITDA per share**
	2010: US cent (247.31)	2010: US cent (145.65)
	2009: US cent (314.41)	2009: US cent (152.02)
CASH	**Net Increase/(Decrease) in cash**	**Cash generated from operating activities**
	2010: USD 0.243 mln	2010: USD (1.070) mln
	2009: USD (0.439) mln	2009: USD (0.956) mln
	Net Increase/(Decrease) in cash per share	**Cash generated from/(used by) operating activities per share**
	2010: US cent 4.30	2010: US cent (18.94)
	2009: US cent (7.77)	2009: US cent (16.92)

CHAIRMAN's STATEMENT

2010 has been an extremely challenging and important year for ShalkiyaZinc N.V. in which significant successes have been achieved.

Operations

Current status of operations

During 2010 ShalkiyaZinc N.V. (the "Company") and its subsidiary, LLP ShalkiyaZinc Ltd, (jointly – the "Group") continued to maintain safeguard of its main assets - the Shalkiya Mine (Mine) and the Kentau Processing Plant (Processing Plant). This work is carried out by a special unit. All buildings and facilities are maintained in good shape and well guarded ready to immediately recommence the work as soon as market conditions improve. Mine shaft waters are permanently pumped out along with maintenance of vehicular and fixed equipment of the Mine and the Processing Plant. Railway unit of the Mine continues to render services on transportation of construction raw materials produced by the nearby plants. Total number of employees of the company is 130 people.

Restoration of the subsoil use contract

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

Strategic investor

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

As discussed in Note 29 to the Consolidated Financial Statements, subsequent to the reporting date, SAT completed an investment of US $50 mln. into the Company's capital in return for 81.39% interest in the Company.

Financial Summary

For the year ended 2010, the Group incurred a total comprehensive loss of US $14.7 mln, which was driven mainly by increased general and administrative expenses relating to a completion of an investment by SAT, obsolete inventory write off and accrual of fines relating to environmental disputes.

During 2010, the Group has recovered VAT from the government in the amount of US $0.8 mln.

In addition, SAT provided financing to the Group's operations in amount of US $2.2 mln before completion of a $50 mln investment into the Company.

Fiscal regime

One of the most significant changes in subsurface users' tax legislation became the change in the tax rate including the one on extraction of mineral resources as per Tax Code of the Republic of Kazakhstan effective January 1, 2010. Under the law tax rates for zinc and lead production are 7% and 8% respectively effective from 1 January 2010 until 31 December 2012 and 8% and 8.25%, respectively from 1 January 2013. Furthermore, the entities based in Kazakhstan are subject to income tax on taxable profit as determined under the laws of the Republic of Kazakhstan. The income tax rate was 20% in both 2010 and 2009. In November 2009, an amendment to the corporate income tax rate reducing schedule was enacted to reduce the corporate income tax rate to 17.5% effective from 1 January, 2013 and 15% effective from 1 January 2014. However, during 2010 changes occurred and the rate was fixed at 20% from 1 January 2011 and for subsequent years.

Subsequent events

Subsequent to 31 December 2010 and up to the date of this annual report, the following significant events occurred:

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

2) On 30 June 2011, the Group restructured its loans to BTA Bank JSC. As a result of restructuring, the Group was granted with favourable terms. In particular, interest rate was decreased from 16% to 7.5% per annum, retrospectively. In the first half of 2011, the Group recognized a gain on interest payable write off in amount of US $3.96 mln.

3) On 30 June 2011, following debt restructuring referred to above, the Group has repaid its debt to BTA Bank in full.

4) On 30 March 2011, SAT has accepted accounts payable of ShalkiyaZinc Ltd. to Atlas Copco Customer Finance AB in amount of US $3.64 mln.

5) On 1 April 2011, SAT has accepted accounts payable of ShalkiyaZinc Ltd. to Midiel A.B. in amount of US $5.4 mln.

As a result of above actions, the Group's total debt decreased by $43.7 mln. The Group's debt restructuring continues and its completion depends on results of negotiations with the Group's creditors.

Outlook

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. The capital investment completed by SAT in the amount of US $50 mln is not sufficient to complete the investment program. By the end of 2011, the Company plans to secure financing required to execute the strategy of the Group.

Despite suspension of production continued during 2010 the Company strongly believes that production assets of the Company, considerable investments during the past periods, and extraordinary large reserves will ensure implementation of its investment programme. In this connection, the Company plans to secure additional financing by the end of 2011 either from private placement or debt financing. The strategy for the period up to 2014 developed jointly with international consultants will allow ShalkiyaZinc to become a competitive mining and processing company with an output capacity of 50,000 tonnes of zinc in zinc concentrate. Further upon expected completion of the second stage of construction of the New Processing Plant in 2015 the Company plans to achieve an output of more than 110,000 tonnes of zinc in zinc concentrate.

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

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

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

Rollan Mussinov
Chairman of the Board of Directors
ShalkiyaZinc N.V.

BUSINESS REVIEW

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

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

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

Assets

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

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

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

Shalkiya Mine

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

The co-ordinates of the Mine are is 67 degrees 25 minutes of east longitude and 44 degrees 1 minute of north latitude. Altitude above sea level is approximately 260 metres.

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

"Production shaft" with 6 metre diameter was raised from the surface to an elevation of +40 metres level (an increase in elevation of +32 metres).

The shaft is equipped with double-skip ore and skip-cage hoists, through which ore and rock are hoisted to the surface, and people and materials are transported to and from the shaft.

The service shaft and Hoisting shaft with diameters respectively of 7.0 metres and 7.5 metres were sunk to a depth of –347 metres and 335 metres respectively.

There is a motor transport decline designed for the movement of equipment and materials with a cross section of 18–23 square metres and a total length of 1,906 metres.

The motor transport decline connects with the elevation levels of levels +163 metres, +100 metres and is currently used for the supply of fresh air.

Pipe-cabling and air ventilators with a diameter of 6.0 metres were raised from the surface to an elevation of +100 metres in the area of the Production shaft. A 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 an elevation of +100 metres in the Production shaft.

Reserves at an elevation of +163 metres and 100 metres respectively have been accessed and are being extracted by room-and-pillar method, slot raise open stopping using mobile equipment. Ore from stopes is delivered through ore channels to an elevation of +100 metres from where it is delivered to the Production shaft by rail transport from where it can be transported 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 the apron feeder 1-15-120 and further to the jaw crusher SDP-12x15.

After being in the jaw 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 plant.

For driving around the Mine heavy-duty cargo handling machinery and drilling rigs dump trucks of Atlas-Copco and Sandvik manufacturers are used.

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

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

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

All rivers are shallow and flow into the Syr Darya River. The largest of them are Zhidely, Kelte, Akuyk and their feeders. The source of water supply of the Mine and the Shalkiya settlement's water supply is the nearby underground water source Kutekhodzha.

Kentau Processing Plant

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

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

Employees

A significant number of the former employees continue to stay in contact with the Operating Subsidiary and express willingness to return to employment with the Operating Subsidiary once production is resumed. Accordingly, Management believes that the Operating Subsidiary will use the opportunity to re-employ a significant part of its former workforce once production resumes. Headcount for Operating Subsidiary, as at the dates indicated:

	2010	**2009**
Directors	1	4
Kentau Processing Plant	31	33
Shalkiya mine	82	68
Administrative personnel	16	22
	130	**127**

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, fammenian lower 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 one of the biggest deposits in the world. 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.

Within the period from 2004 till 2009, 2,235 thousand tonnes of ore was 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"). Since there were no significant production activities since 2008, management believes reserves report is still valid as of the date of this annual report.

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

Category	Quantity (mt)	Pb (%)	Zn (%)	Zn grade (%)	Pb metal (mt)	Zn metal (mt)
Mineral resources						
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 Reserves						
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 proved and probable	**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: Prospecting and prospecting-assessment, including ground geophysics, prospecting and mapping, drilling and geophysical logging.
- 1986 to 1991: 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. Since there were no significant production activities since 2008, management believes that reserves report is still valid as of the date of this annual report.

Talap JORC Compliant Mineral Resources at 1.5% ZnEq Cut-Off.

Classification	Type of mineralization	Ore (mt)	Grade Pb (%)	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 concentrator. 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 fully impaired the assets of the Talap Deposit.

New Construction

In 2010 the Company continued implementation of the project on construction of the New Processing Plant and in particular the following activities have already been carried out up to date:

- Outotec Technology (Finland) has completed additional ore studies and finalized basic engineering of the New Processing Plant which confirmed its high technological characteristics – zinc recovery into zinc concentrate will make 70% at 55% of zinc grade and silica 5%, recovery of lead into lead concentrate 50% at 3% of lead grade.
- Mechanobr Engineering (Russia) put together "Technological schedule for project development of the new plant at Shalkiya deposit" taking into account all the research carried out by different organizations in 2008-2009 as well as the experience of ore processing at Kentau Plant. Its recommended technological scheme confirms the possibility of producing lead concentrate with 43% grade at 52% recovery of lead and 55% grade high quality zinc concentrate with, SiO_2 not more than 5% and 22%grade zinc industrial product and SiO_2 ~ 28%.
- "Kazgiprotsvetmet" (Kazakhstan) made the update of the project of Shalkiya underground mine for 4mtpa capacity with the view of construction of the new processing plant with the capacity of 4 mtpa.
- The hoisting shaft head gear at Shalkiya Mine was constructed including ore storage bins. Construction of service shaft head gear and service-and-administration building were started by JSC "Eleveatormelstroi" and LLP "Asar".

- Mine hoisting equipment have been manufactured by "MIDIEL AB" (Sweden) and "MIDIEL NPF" (Ukraine) and are ready for shipment.
- Mine equipment of Atlas Copco (Sweden) and Sandvic (Finland) has been purchased.
- SRK Consulting has accomplished and finalized technical audit of solutions of project development in 2008. It confirmed the project and the technological approaches proposed for construction of the new plant.
- At the mine 2,704.2 metres of drilling of six more additional wells, costing 0.31 million, was performed confirming Shalkiya Deposit reserves quality.
- The project "Preliminary environmental impact assessment" on the project "Access and development of Talap Deposit complex ores in Zhanakorgan district of Kyzylorda region has been developed. Positive conclusions of the State Ecological Expertise have been obtained.
- In 2010 the company continued its work on execution of its contract on production of underground water at Shalkiya mine wells #1-8. Changes were introduced into mining allotment document on production of underground water due to the necessity to drill additional wells and repeated drilling of the existing wells on a land slot of 2.6 square km. Project on exploitation of Shalkiya Mine underground waters to meet technical needs of Shalkiya Mine. As per the "Law on Subsurface and Subsurface Use" the project is undergoing expertise with the responsible state bodies for ecological, industrial safety, sanitary epidemiological as well as rational and complex subsurface use

With the aim of increasing competitiveness through construction of the New Plant, during 2008 Outotec Minerals Oy has conducted an additional study 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 from these studies convincingly demonstrate the cost-effective nature of the New Plant and the Smelter.

Upgrade test work was carried out at the Kentau Plant, where fresh process samples (Zn conc. containing 45% Zn and 15% silica) were used to study this option. Results were successful and therefore such an upgrade process was introduced later to the process design. Saleable zinc concentrate from the upgrade process will contain 55% zinc and 5% SiO_2 at 70% zinc recovery from the plant feed.

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

Along with assistance from Outotec, SRK, Mekhanobr Engineering the Company considered options of use of different 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 go into fine ore bin and coarse ones are fed in the tertiary crushers.

Fine ore bin dumps its material on the belt conveyor that delivers 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 takes place in ball mills down to P80 of 450 and 53 microns respectively. Tertiary grinding to P80 of 30 microns is 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 are 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 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% SiO_2 and 70=% Zn recovery.

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

Plant's 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 equipped with field instruments, online analyzer, particle size monitors and motor controls centres, which are directly connected to Proscon process control system. Processing will be monitored and controlled from a control room located in the main process building.

Financing

A capital investment by SAT. in amount of US $50 mln. will not be sufficient to finance full development of the Group.

Markets

Production and consumption

The main products from the complex ores of Shalkiya Deposit are zinc and lead concentrates. In 2010 the world zinc mining increased according to data of USGS by 13,2% to 12,8 mln. tonnes. Among all it is worth to mention China, which increased zinc extraction by 12,9% to 3,5 mln. tonnes, Australia, which increased the extraction by 12,4% to 1.45 mln. tonnes and Mexico, which increased the extraction by 41% to 550 K tonnes. USA decreased zinc extraction by 2,2%, Canada by 4,1% and Ireland – by 9%. In 2010 the volumes of extraction of zinc in Russia increased by 16,5%.

From 2004 there was excessive demand for zinc and lead in the world market mostly due to growing demand for these metals 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 from September 2007 to the end of 2008 a large decline of price was observed on these metals.

The world zinc consumption in 2010 decreased by 5,4% to 10.5 mln.tonnes, at that, the production increased by 18%. The production of refined zinc increased only by 13,2%. Thus the surplus of zinc on the market in 2009 in an amount of 747 K tonnes decreased to 296 K tonnes in 2010.

Annual trade volume of zinc ores and concentrates (lead-zinc) increased in terms of import in 2010 by 9% to 10,9 mln. tonnes Import of zinc ores and concentrates is mostly done by China, which buys on the world market about 30% of zinc for further processing on its refining plants. Korea also has rather significant volume of import – about 13% of the world values and Japan – 9%.

In 2010 the main exporters of zinc and lead were Peru (35%), Australia (17%), USA (8%), Bolivia (6%) and Belgium (6%).

<u>Zinc prices</u>

Decline in price caused suspension of many small and medium mines including Shalkiya Mine. According to the analysts the cause of such price decline was an unprecedented excess of stock formed in 2008. Excess of zinc in the world market increased in 2009 up to its maximum level starting from 1993 along with decrease of demand in the USA and Europe

Following the results of October 2010, the zinc prices returned to the prices of pre-crisis period, and exceeded the value of US $2,240 per tonne – the highest value beginning from May 2008.

According to preliminary estimation of analysts the world zinc extraction in 2011 shall increase by 4,4%, in 2012 the volume of production shall increase by 6,8% and the volume of consumption by 9,3% compared to 2010. Thus in 2012 zinc surplus shall reduce to 7 K tonnes.

The volume of zinc ores and concentrates trade in 2011 is expected to increase by 5,4% and in monetary terms – by 24%.

Average annual price on zinc according to the estimation of most experts in 2011 will be US $2,364 per tonne. In 2012 the volume of zinc production and the volume of zinc consumption will increase and the world surplus will decrease, which can lead to increase in price on zinc to US $2,541 per tonne. In 2013 the world deficit of zinc is possible, which will lead to increase in price to US $2,721 per tonne. This rally will end by price decrease to US $2,588 per tonne in 2014 due to launching of new capacities of zinc production.

Taking into account the above facts and proximity of the Company to the strategic product markets it has perfect prospects for implementation of its expansion and development plans.

FINANCIAL REVIEW

This financial review has been included to assist the understanding of the Group's financial position at 31 December 2010 and results of operations for the year then ended and should be read in conjunction with the consolidated financial statements and notes on pages 29 through 70. The consolidated financial statements for the financial year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union..

Summary

During 2010, the Group incurred a total comprehensive loss for the period in amount of US $14.7 million. As at 31 December 2010 the Group had accumulated deficit of US $80.9 million and liabilities of US $58.2 million.

Income statement

In 2010, the Group recognised a total comprehensive loss in amount of US $14.7 million, which is US $5.4 million lower than that for the year 2009 (US $20.08 mln.). Such significant change is explained mainly by:

1) net foreign exchange gain of US $0.3 million incurred during 2010 against foreign exchange loss of US $1.7 million incurred during 2009. In 2009 there was 25% devaluation of Kazakhstan Tenge (KZT) against US $ which resulted in significant foreign exchange loss from revaluation of the Group's monetary assets and liabilities denominated in US $.

2) deferred tax benefit of US $0.79 million recognized during 2010 against deferred tax charges of US $4.7 million recognized during 2009.

3) general and administrative expenses increase by US $4.4 million

General and administrative expenses increased to US $8.8 million (2009: US $4.4 million) or by US $4.4 million (99%), mainly due to (i)obsolete inventory write off in amount of US $1.0 million (Note 7 to the consolidated financial statements); (ii) increase in consulting services by US $2.1 million, which is driven by legal and financial advisor's fees in relation to completion of the SAT. capital investment; (iii) fines relating to environmental disputes in amount of US $1.5 million accrued in 2010

During 2010, the Group incurred finance costs of US $5.2 million (2009: US $8.0 million) relating to borrowings from BTA Bank JSC.

Financial position

During 2010 total assets have dropped by US $3.7 million and amounted to US $39.6 million. This change is explained mainly by recovery of VAT of US $0.8 million, decrease in inventories by US $1.5 million mainly due to increase of the provision for obsolete inventory and write-down to net realizable value.

During 2010, accumulated deficit increased by US $14.0 million due to facts described in "income statement" section.

During 2010, total liabilities increased by US $11 million (+23%) from US $47.2 million to US $58.2 million at 31 December 2009 and 2010, respectively. This is mainly due to (i) accrual of interest relating to borrowings from BTA Bank JSC in amount of US $5 million for the year 2010; (ii) change in estimates relating to provision for future site restoration, which resulted in US $0.7 million increase; (iii) borrowings from related party (SAT.) in amount of US $ 2.2 million; (iv) accrual of environmental charges in amount of US $1.15 million; (v) increase in other payables, which is driven by legal and financial advisor's fees in relation to completion of the SAT. capital investment

Regarding the going concern of the company reference is made to note 2 of the consolidated financial statements.

RISKS, UNCERTAINTIES AND INTERNAL CONTROL

Risks

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 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 ShalkiyaZinc.

The Board continually assesses and monitors the key risks of the business. The principal risks and uncertainties that could have a material impact on the Group's performance over the remainder of the financial year have not changed from those which are set out in the Group's 2009 Annual Report.

The Board continually assesses and monitors the key risks of the business. In accordance with Dutch Financial Markets Supervision Act (Wet op het financieel toezicht), section 5:25d, paragraph 8, we summarise below the principal risks that could have a material impact on our business in 2010:

- The majority of the Group's assets are located in Kazakhstan, which has a legal and regulatory regime that differs in some respects from legal and regulatory regimes in other countries. For details, refer to Note 2 in page 34.

- 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. Historically the 90% of the Group's revenue were derived from the sale of zinc concentrate, the price of zinc had a significant impact on the Group's operating results. The prices of both zinc and lead may vary significantly, due to a number of factors outside the Group'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. As at 31 December 2010, total current liabilities of the Group amounted to US $51.2 million. Subsequent to 31 December 2010, SAT. completed a US $50 mln capital investment into the Company and the Group was able to repay or restructure the significant part of its debts.

Uncertainties

As detailed in Note 2 to the consolidated financial statements for the year ended 31 December 2010, significant uncertainties exist regarding the Group's ability to continue as a going concern as at 31 December 2010. As such the primary objective of the Group's capital management was 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. At 31 December 2010, the accumulated losses resulted in a negative equity amount of US $18.7 million. Subsequent to 31 December 2010, SAT. completed its US $ 50 mln capital investment into the Company by acquiring newly issued shares of the Compny and the Company was able to restructure or repay the significant part of its debts by the date of this annual report. The Company plans to secure additional financing by the end of 2011 to be able to execute its development strategy. Future ability to continue as a going concern depends on the Group's ability to secure required financing its investment program.

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 2010.

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

- improving the efficiency and effectiveness of operations;
- optimising the activities of the Group and its management bodies;
- ensuring the adequacy and timeliness of financial and administrative information and reporting;
- minimizing internal and external risks;
- improving the management of assets and liabilities; and
- ensuring the safety of ShalkiyaZinc's assets.

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

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

Management prepared these consolidated financial statements on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group.

The Group incurred a total comprehensive loss of USD 14,706 thousand and USD 20,803 thousand for the years ended 31 December 2010 and 2009, respectively. At 31 December 2010, the Group's current liabilities exceeded its current assets by USD 49,944 thousand (2009: USD 36,101 thousand). At 31 December 2010, the Group's accumulated deficit amounted to USD 80,941 thousand (2009: USD 66,968 thousand). As disclosed in Note 1 to the consolidated financial statements, the Group suspended its production activities and construction of the new ore processing plant since 2008.

The Group's borrowings amounted to USD 34,790 thousand as at 31 December 2010 and are considered as payable on demand due to defaults on the scheduled payments since 2009.

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

i) to complete construction of the new processing plant; and

ii) to repay the Group's debt.

Management plans

Per management's assessment processing of the ore at the existing Kentau Processing Plant (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 labour 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 2010, the Group's capital expenditure related to the construction of the new processing plant amounted to USD 23,195 thousand, including USD 3,357 thousand in prepayments. Per management's assessment the Group would need an additional USD 158 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 eighteen months.

Per management's estimate completion of the new processing plant requires financing of approximately USD 158 million. Also, additional financing is required to repay the Group's borrowings and to fund its operating costs (mainly general and administrative expenses).

As disclosed in Note 1 to the consolidated financial statements, the Group was acquired by SAT via capital contribution of USD 50 million. SAT is a diversified mining and metallurgy group engaged in exploration and development of chrome, manganese and other natural resources. The Group obtained a support letter from SAT which confirms the parent company's intention to support the Group within at least 12 months.

As disclosed in Note 29 the Group has repaid its debt to BTA Bank in full as well as transferred account payable balances in amount of USD 7.44 million to SAT. These measures have positively affected the net current liability position of the Group.

Currently the Group is subject to a number of due diligence studies and is actively looking for the potential investor.

The matters disclosed above indicate the existence of a material uncertainty in obtaining sufficient financing to repay the Group's debts and to complete construction of the new processing plant and resume commercial production. This may cast significant doubt about the Company's ability to continue as a going concern.

Marat Sarkytbayev

Chief Executive Officer

SHAREHOLDER 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 Strawinskylaan 411(WTC, Tower A, 4th floor), 1077 XX, Amsterdam, P.O. Box 79141, 1070 ND, Amsterdam, 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).

As at 31 December 2010, the ultimate beneficial shareholders of the Company until completion of an investment by SAT, were as follows:

Ultimate Shareholders	Number of Shares	Percentage of the Company's Share Capital
Rifat Rizoyev	2,818,465	49.88%
Assylbek Abuov	631,000	11.17%
Marat Sarkytbayev and Samat Kazymov	757,199	13.40%
Freefloat in the form of GDRs	1,443,336	25.55%

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

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

Ultimate Shareholders	Number of Shares	Percentage of the Company's Share Capital
SAT & Company JSC	25,591,327	84.28%
A. Abuov	628,214	2.07%
M. Sarkytbayev and S. Kazymov	759,985	2.50%
Other significant shareholders	2,818,465	9.28%
Freefloat in the form of GDRs	566,778	1.87%

None of shareholders have duty to report on the basis of articles of the Law on reporting influence in listed entities 1996.

CORPORATE INFORMATION

Directors	Rollan Mussinov, non-executive chairman Marat Sarktybayev , executive member Daniyar Amanov, non-executive member Aynur Bidaibekova , non-executive member Oryngazy Jaboldinov, non-executive member Murat Perzadaev, non-executive member
Registered Office	Strawinskylaan 411 (WTC, Tower A, 4th floor) 1077 XX, Amsterdam P.O. Box 79141 1070 ND, Amsterdam The Netherlands
Principal Bankers	Bank of New York (BONY)
Independent Auditors	PricewaterhouseCoopers Accountants N.V. Fascinatio Boulevard 350, 3065 WB Rotterdam, P.O. Box 8800 3009 AV Rotterdam, The Netherlands
Solicitors	Norton Rose 4 More London London SE1 2AQ
Company's location of registration	Rotterdam, the Netherlands
Company registration number	27293522

DIRECTORS' REPORT AND CORPORATE GOVERNANCE

The Directors submit the Annual Report of the Group together with the audited consolidated financial statements for the year ended 31 December 2010.

Business review

A review of the principal activities and business can be found in the Business Review and Financial Review sections of this annual report as well as in the Chairman's statement to this annual report.

Financial results

The Financial Statements for the year ended 31 December 2010 are set out on pages 29 to 70 Financial statements analysis is presented in Financial Review section of this annual report.

Corporate Governance

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 Board of Directors 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 Board of Directors, the Board is considering appointing a further non-executive member to the Board of Directors, 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.

<u>Board of directors effective at 31 December 2010</u>

Directors	Year of birth	Position	Appointed to Management Board	Nationality
Marat Sarkytbayev (1)	1967	Executive Director	17 July 2008	Kazakhstan
Ramilya Azelgareyeva (2)	1947	Executive Director	17 July 2008	Kazakhstan
Baurzhan Bisembayev	1967	Non-Executive Director	17 July 2008	Kazakhstan
Talgat Alimkhanov	1971	Non-Executive Director	17 July 2008	Kazakhstan

(1) In addition to being an Executive Director of the Company, Mr. Sarkytbayev is also the General Director (CEO) of the Operating Subsidiary and shareholder in the Company, holding an interest jointly with Mr. Kazymov of 13.40% through Zinc Investments I B.V. incorporated in the Netherlands as at 31 December 2010
(2) In addition to being an Executive Director of the Company, Mrs. Azelgareyeva is also Financial and Economic Director of the Operating Subsidiary as at 31 December 2010.

<u>Marat Sarkytbayev, Executive Member</u>

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 2010. 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.

The newly elected board of directors and senior management

The new Board of directors of the ShalkiyaZinc appointed at the shareholders' meeting on 17 September 2010 have taken office effective January 18, 2011 and now consists of the following individuals:

Directors	Year of birth	Position	Appointed to Management Board	Nationality
Rollan Mussinov	1979	Non-executive chairman	17 September 2010	Kazakhstan
Marat Sarkytbayev	1967	Independent Director/Executive member of the Board	17 September 2010	Kazakhstan
Oryngazy Jaboldinov	1979	Independent Director/Non-Executive member of the Board	17 September 2010	Kazakhstan
Daniyar Amanov	1979	Independent Director/*Non-executive member of the Board*	17 September 2010	Kazakhstan
Murat Perzadaev	1949	Non-Executive member of the Board	17 September 2010	Kazakhstan
Aynur Bidaibekova	1980	Non-Executive member of the Board	17 September 2010	Kazakhstan

Rollan Mussinov , Non-executive Chairman

Rollan Mussinov as non-executive chairman of the Management Board. Mr. Mussinov, aged 31, is currently the First Deputy Chief Executive Officer of SAT, a position he has held since January 2009. Mr. Mussinov also acts as chairman of the board of JSC KazFerroStal. From 2007 to 2009 he served on the board of directors of JSC Nur Trust (Asset Management). Previously, from May to October 2007 he was a Vice-President of United Capital LLP, and between September 2006 and April 2007 he was a Vice-President of Investment Banking at Kaspi Bank JSC. Between October 2003 and July 2006 Mr. Mussinov was an executive director of the Kazakhstan Investment Fund. Mr. Mussinov holds a MA in International Relations with major in Finance from Johns Hopkins University, Baltimore, Maryland. Mr. Mussinov does not hold any share capital in ShalkiyaZinc.

Marat Sarkytbayev, Independent Director/Executive member of the Board

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 Defense Committee of the Ministry of Energy of Kazakhstan, the Astana-Holding Group, and SOJSC Caspi Neft TME.

Oryngazy Jaboldinov,Independent Director/Non- executive member of the Board

Oryngazy Jaboldinov, non-executive member of the Management Board. Mr. Jaboldinov, aged 31, has experience including working for the legal practice in Pragma Corporation between 2001 and 2002, the legal practice at Macleod Dixon in Kazakhstan between 2002 and 2005, and his experience as Head of Department for Legal Support with the Projects of Foreign Content at the Kazakhstan Investment Fund between 2005 and 2008. Mr. Jaboldinov currently holds the position of a Chief Legal Counsel of Paylink Global. He holds a Law degree from the Kazakh State Law University and an LLM degree from Indiana University School of Law. He also holds a degree in Finance from the Eurasian Institute of Markets, Kazakhstan. Mr. Jaboldinov does not hold any share capital in ShalkiyaZinc, and is independent, as defined in the Dutch Code.

Daniyar Amanov, Independent Director/Non- executive member of the Board

Daniyar Amanov, non-executive member of the Management Board. Mr. Amanov, aged 31, currently acts as an Independent Director of JSC Open Accumulative Pension Fund “Otan”. Prior to his current role he held various management positions in the National Bank of Kazakhstan including Head of Department of Monetary Operations from 2005 to 2009. He lectured on derivatives at the Kazakhstan Economic University between 2004 and 2005 and worked for Sberbank between 1999 and 2000. Mr. Amanov holds a degree in Banking Management from the Moscow State University of Management. Mr. Amanov does not hold any share capital in ShalkiyaZinc, and is independent, as defined in the Dutch Code.

Murat Perzadaev, Non-Executive member of the Board

Murat Perzadaev, non-executive member of the Management Board. Mr. Perzadaev, aged 61, currently holds a position of an Advisor to the Chief Executive Officer of SAT Komir, a subsidiary of the Investor engaged in the coal-mining sector. Prior to his current engagement he was an executive director of JSC Arcelor Mittal Temirtau between 2006 and 2009. From 2005 to 2006 he managed a plant of refractory materials in Rudnyi city. From 2004 to 2005 he served as a member of the board of directors of JSC ValutTranzitBank. He was a founder of the mining company “Karabas-Abad” between 2002 and 2004. Mr. Perzadaev was head of the mining department of ENRC between 2001 and 2002. Prior to that he was principally involved in coal mining in the Karaganda region. Mr. Perzadaev holds a PhD in Technical Science from the Kazakhstan Polytechnical Institute. Mr. Perzadaev does not hold any share capital in ShalkiyaZinc.

Aynur Bidaibekova , Non-Executive member of the Board

Aynur Bidaibekova, non-executive member of the Management Board. Mrs. Bidaibekova, aged 30, has experience including being employed as Chief Executive Officer of Asia Broker Services from February 2007 to December 2008, Managing Director of ABS Securities from December 2007 to December 2008 and Chief Executive Officer of Pervyi Brokerskii Dom from October 2005 to February 2007. She also has experience of working for Compass as an Investor Relationship Manager from June 2004 to September 2005 and held various positions at Temirbank between November 2000 and May 2004. Mrs. Bidaibekova holds a degree in Finance from Almaty State University. Mrs. Bidaibekova does not hold any share capital in ShalkiyaZinc.

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 2010, the Audit Committee met twice. During the meetings the audit committee members reviewed the draft interim reports and annual reports in order to ensure that Company is in compliance with legal requirements, accounting standards and Listing rules.

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. The Directors are entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine. Under current arrangements, members of the Board of Directors do not receive any salary or performance-based bonuses and are not entitled to additional benefits from the Company. At some point when the production starts and there's revenue coming from sales a remuneration committee will be established to oversee the Directors remuneration. The remuneration of Directors were disclosed in Note 27 of the Consolidated Financial Statements.

During 2010 the Remunaration and Nomination Committe met once. During the meeting the committee considered the appointment of CFO and Director on Investor relations.

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 2010 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.

The Dutch Corporate Governance Code

The amended Dutch Corporate Governance Code (the "Dutch Code") became effective as at 1 January 2009. The English text of the Dutch Code is available at the following website: http://www.commissiecorporategovernance.nl/page/downloads/DEC_2008_UK_Code_DEF_uk_.pdf. 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 One-tier Board replaced a two-tier structure with a simpler structure consisting of the One-tier 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.1.7 The Company currently does not have a whistleblowers policy, but is developing such a policy and expects to have it adopted at the Annual General Meeting.

Number II.2.12, II.2.14 - Former management board has not received any remuneration for 2010 and previous years as well. The remuneration of Marat Sarkytbayev and Ramilya Azelgereeva disclosed in Note 27 is the amount of salary that they have received, as they're employees of the Company, Ramilya Azelgereeva is the Head of Finance and Economic department, Marat Sarkytbayev is CEO. Board wasn't involved in determination of the amounts of their salaries. Due to the above no remuneration report was prepared by the board.

Number II.2.13a – II.2.13j – The Company cannot apply these best practice rules as no remuneration report was prepared by the board.

Numbers II.1.4c, II.2.2 – II.2.7, II.2.10, II.2.11, III.1.1 - III.1.9, III.2.1. – III.2.3, III.3.1 – III.3.6, III.4.1 – III.4.4, III.6.1 – III.6.7, III.7.1 – III.7.3, V.1.1, V.2.2, V.2.3, and V.3.3. The Company cannot apply these best practice rules as it has a one-tier board. The items referred to in the best practice rules - to the extent possible - have instead been addressed in this report of the one-tier board.

Number II.1.2d- The Company does not meet the Corporate social responsibility requirements in full. Reference is made to Note 26 on page 68.

Number II.2.1- The Company currently is updating it's remuneration policy and planning to adopt it at Annual General meeting.

Number II.1.3- The Company currently does not have a Code of Conduct but is developing such a policy and expects to have it adopted at the Annual General Meeting.

Number III.5.1- The Board has the Terms of Reference for Committees but they haven't been publicized on the Company's website.

Number III.5.4d, V.3.1, V.3.2. Taking into account the suspension of Company's operation and lack of big number of transactions, the Company temporarily does not need the internal audit function.

Number IV.3.11. The Company assesses the hostile take-over risk as minor. Accordingly the Company did not analyze any anti-takeover measures.

Number IV.3.13. The Company is planning to adopt it's policy on bilateral contacts with shareholders at Annual General meeting.

Number V.1.3- The Company was late with external financial reporting due to the delay with completion of the Transaction with Investor. Consequently the process of tendering of external auditors' services was delayed as well which caused delay in reporting.

The Board of Directors
9 September 2011

OTHER STATUTORY INFORMATION

Principal activities

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. A list of main subsidiary undertakings is given in note 1 on page 33.

Annual general meeting

The annual general meeting of shareholders ("Shareholders Meeting") of ShalkiyaZinc N.V. (the "Company"), with its registered offices at Rotterdam, the Netherlands, is to be held on 28 October 2011 at Strawinskylaan 41, (WTC, Tower A, 4th floor), Amsterdam, the Netherlands, from 13:30 hours (CET) until 15:30 hours (CET). Details of the resolutions to be proposed together with explanatory notes are set out in a separate Notice of Meeting to be published separately. A summary of the business carried out at the AGM will be published on the Company's website (www.zinc.kz).

Equity structure

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.

All shares are registered shares. No certificates were issued. The shares are not classified- they are ordinary shares as per Article 4.2 of the articles of the Association. The company can only issue shares pursuant to a resolution of the general meeting or of another corporate body designated to do so by a resolution of the general meeting for a fixed period not exceeding five years as stipulated in Article 6 of the Articles of Association. The designation must be accompanied by a stipulation as to the number of shares that may be issued.

The designation may each time be extended for a period of up to five years. The designation may not be cancelled, unless the designation provides otherwise. Within eight days after the resolution of the general meeting to issue shares or to designate a corporate body, the company shall deposit a full text thereof at the trade register where the company is registered.

Within eight days after the end of each calendar quarter, the company shall notify the trade register of each issue of shares in the past calendar quarter, specifying the number and class in case different classes of shares were issued.

The provisions of paragraph 1 up to and including paragraph 3 of this article shall apply accordingly to the granting of rights to subscribe to shares, but does not apply to the issue of shares to someone who exercises a previously acquired right to subscribe to shares.

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

For details on subsequent shares issuance please, refer to Note 29 on page 70.

Rights attaching to shares

The rights attaching to the ordinary shares of the Company are defined in the Company's Articles of Association. The Articles of Association may be changed with the agreement of shareholders.

Voting rights

Shareholders are authorized, either in person or represented by representatives authorised in writing, to take part in, to speak at, and to extent applicable to exercise his voting rights in general meeting of shareholders. The provisions of article 32 of the Articles of Associations concerning shareholders apply by analogy to other persons referred to in Article 11 and 12, to the extend they are entitled to voting rights and/or the right to attend general meetings of shareholders. A shareholder or his proxy will only be admitted to the meeting if he has notified the company of his intention to attend the meeting in writing at the address and by the date specified in the notice of meeting. A shareholder or his proxy will only be admitted to the meeting if the shares in question are registered in the shareholder's name on the record date referred to in Article 32.2. The proxy is also required to produce written evidence of his mandate. The Board of management may determine further conditions to the use of electronic means of communication.

In September 2010, the Group signed an investment agreement with SAT & Company JSC ("SAT"), incorporated in the Republic of Kazakhstan, under which SAT acquires controlling stock in ShalkiyaZinc N.V. through issuance of 24,715,769 shares (81.39%) in ShalkiyaZinc N.V. in return for a capital investment of USD 50 million into ShalkiyaZinc Ltd.

Irrevocable undertakings to vote, or procure votes in favour of the Transaction Resolutions were received by the Investor and the Company from Shareholders representing approximately 24.57% of the voting rights of the Company on 3 August 2010. The Irrevocable Undertakings and restrictions thereunder are expressed to expire upon an occurrence of certain events including the closure of the Mandatory Offer. Completion of the Transaction is conditional each of the Principal Shareholders and the registered holders of the Shares to which they are beneficially entitled, pursuant to which each of the Principal Shareholders undertakes, inter alia, not to accept the Mandatory Offer in respect of any of their holdings of Shares. Accordingly, irrevocable undertakings not to accept the Mandatory Offer have been received from Shareholders representing 74.45% of the voting rights in the Company. In addition, Messrs. Abuov, Sarkytbayev and Kazymov have each undertaken unconditionally to the Investor and the Company to vote, or to procure that the registered holder of the Shares of which they are the beneficial owner votes, in favour of each of the Transaction Resolutions.

Transfer of shares

Limitations with regard to the transfer of shares are stipulated in Article 10. Transfer of Shares which states that the transfer of a share (not including book entry rights with respect to shares held and continued to be held by a nominee shareholder) requires an instrument intended for such purpose and, save when the company itself is a party to such legal act, the written acknowledgement by the company of the transfer. The acknowledgement must be made in the instrument or by a dated statement of acknowledgement on the instrument or on a copy or extract thereof and signed as a true copy by a civil law notary or the transferor. Official service of such instrument or such copy or extract on the company is considered to have the same effect as a n acknowledgement.

Appointment and discharge of directors and management board members;

Rules for appointment and discharge of directors and supervisory board member are stated in Article 15 of the Articles of Association. AGM appoints members of the Management Board. All Executive Directors retire upon 4 years of service at AGM. All members of the Management Board are eligible for re-election. The Board of Management nominates one or more candidates for each vacant seat on the Board. A resolution of the AGM to appoint a director requires a simple majority of the votes cast and if there is more than one candidate for a vacant seat it must be filled through an election of a person from the list of candidates. A member of the Board may be suspended or dismissed by the decision of the AGM. Member of the Board may be suspended by the Management Board and this suspension may be discontinued by the AGM. Any suspension may be extended one or more times up to three months in aggregate. If no decision is made on termination or dismissal the suspension ceases.

Directors

The Directors of the Company who served during the year were indicated on pages 17 and 18.

The new Board of directors of the ShalkiyaZinc has been appointed at the annual general meeting of shareholders (algemene vergadering van aandeelhouders) of the Company (the Shareholders Meeting), held on 17 September 2010 within the meaning of section 2:132 of the Dutch Civil Code (Burgerlijk Wetboek) (the DCC) and in accordance with article 13 (5) and 14 of the articles of association (statuten) of the Company as amended from time to time (the Articles of Association). The Articles of Association distinguish between executive (uitvoerend bestuurder) and non-executive (niet-uitvoerend bestuurder) members of the Board. The new Board will take office effective the date of completion of Transaction.
For the list of new board of management, please refer to page 18.

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 2010 and 2009.

During the year no Director had any material interests in any contract with the Company or a subsidiary being a contract of significance in relation to the Company's business. For details on Directors interest in shares of the Company please refer to page 15.

Authorities of the directors regarding issuance of shares and acquisition of the entity's own shares are stipulated in Article 18.

Approval of decisions of the board of management. Resolutions of the board of management require approval of the general meeting when these relate to an important change in the identity or character of the company or the undertaking, including in any case: transfer of the undertaking or practically the entire undertaking to a third party; the entry into or termination of a long-term co-operation of the company or a subsidiary with another legal person or partnership or as a fully liable partner in a limited partnership or general partnership, if such co-operation or termination is of a far-reaching significance for the company; the acquisition or divestment by the company or a subsidiary of a participating interest in the capital of a company having a value of at least one-third of the amount of its assets according to its balance sheet and explanatory notes or, if the company prepares a consolidated balance sheet, according to its consolidated balance sheet and explanatory notes in the last adopted annual accounts of the company.

If a serious private bid for part of the business or for a shareholding in the company is made; or the company makes a serious private bid for part of the business or for a shareholding in another company, whereby the value exceeds the limits set out in article 18 paragraph 1 subsection c hereof, then the board of management will inform the general meeting as quickly as possible of its position in relation to the bid, along with its reasons for adopting that position.

None of directors or employees receive payments on discharge in connection with a public takeover bid.

The general meeting is entitled to require resolutions of the board of management, other than those mentioned in paragraph 1, to be subject to its approval. These resolutions shall be clearly specified and notified to the board of management in writing.

The lack of approval of the general meeting referred to in article 18 paragraph 1 hereof, does not affect the authority of the executive directors to represent the company.

Articles of association

Rules for changing articles of association are stated in Article 35 which says that it is AGM may resolve to amend the articles of association. A resolution to amend the articles of association shall be adopted by AGM with an absolute majority of the votes cast representing at least one third of the issued capital of the company. A new meeting as referred to in article 2:120 paragraph 3 of the Dutch Civil Code cannot be convened.

When a proposal to amend these articles of association is to be made at AGM, the notice of such meeting must state so and a copy of the proposal, including the verbatim text thereof, shall be deposited and kept available at the company's office for inspection by the shareholders, until the conclusion of the meeting.

Powers of the Directors

The Board of Directors is responsible for management and control of the Group's business. The Board of Directors shall represent the Company. Each executive director is authorized to represent the Company individually. Members of the Board of Directors are appointed or re-appointed at any general meeting. The Board of Directors has power, without prejudice to its responsibility, to cause the Company to be represented by one or more attorneys.

Significant agreements – change of control

The following significant agreements contain certain termination and other rights for the counterparties upon a change of control of the Company.

In August 2007, the Company engaged Barclays Capital ("BarCap") to act as the Company's financial advisor in connection with the then proposed project financing of the expansion of the Shalkiya Mine. In consideration of BarCap's services, the Company granted Barclays Bank Plc ("Barclays") 500,000 warrants to purchase 500,000 GDRs (the "Warrants") which at the time of the grant, represented shares constituting 0.8772% of the issued share capital of the Company. The Warrants are exercisable at the strike price of US $4.75 at any time until 10 August 2011, on the occurrence of certain events in relation to the provision of a US $150 million facility by BarCap (the "Facility") and / or in relation to the termination of BarCap as the Company's financial adviser. BarCap's services did not progress beyond preliminary stages and no Warrants have become exercisable in relation to the provision of the Facility. However, as the Company has not yet formally terminated BarCap's services as a financial adviser, the Warrants are technically still in existence, if not exercisable by Barclays. In view of the expected dilution, the Company has offered Barclays, subject to completion of the Transaction, an adjustment of the number of Warrants to which Barclays is entitled under the deed, to 2,687,222 Warrants, at the original exercise price of US $4.75 per GDR. The adjusted number of Warrants would entitle Barclays to subscribe for and purchase from the Company (subject to vesting and exercise of the Warrants) 2,687,222 GDRs which, immediately following completion of the Transaction would represent shares constituting the original 0.8772% of the issued share capital of the Company.

As at 10 August 2011 the BarCap has not exercised its rights to purchase aforementioned amount of shares.

Independent Auditors

The current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group' auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

During the year Ernst&Young Accountants LLP resigned as auditors to the Group, and the Board of Directors have appointed PricewaterhouseCoopers Accountants N.V.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 2010 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

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

- the consolidated financial statements for the year ended 31 December 2010, give a true and fair view of the assets, the liabilities, the financial position and the profits or the loss of ShalkiyaZinc N.V. and its consolidated companies (jointly referred to as the Group); and
- the annual report for the year ended 31 December 2010 gives a true and fair view of the state of affairs on 31 December 2010, the course of business during the financial year ended 31 December 2010 of ShalkiyaZinc N.V. and its consolidated companies and the annual report describes the substantial risks with which the issuer is confronted.

On behalf of the Group:

Rollan Mussinov, non-executive chairman

Marat Sarkytbayev, executive member

Daniyar Amanov, non-executive member

Ainur Bidaibekova, non-executive member

Murat Perzadaev, non-executive member

Oryngazy Jaboldinov, non-executive member

9 September 2011

Page

Independent auditor's report

To: the General Meeting of Shareholders of ShalkiyaZinc N.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of ShalkiyaZinc N.V., Rotterdam as set out on pages 29 to 81. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

The Board of Directors' responsibility

The Board of Directors 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 Dutch Civil Code, and for the preparation of the Annual Report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditor's 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 company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by The Board Directors, 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.

PricewaterhouseCoopers Accountants N.V., Fascinatio Boulevard 350, 3065 WB Rotterdam, P.O. Box 8800, 3009 AV Rotterdam, The Netherlands
T: +31 (0) 88 792 00 10, F: +31 (0) 88 792 95 33, www.pwc.nl

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 2010, 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 Dutch 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 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Emphasis of uncertainty with respect to the going concern assumption

We draw attention to note 2 to the consolidated financial statements which indicates that the company incurred a net loss of USD 13,973,000 during the year ended 31 December 2010 and, as of that date, the company's current liabilities exceeded its current assets by USD 49,944,000 and the company's accumulated deficit amounted to USD 80,941,000. The company's ability to continue as a going concern is dependent on raising financing to complete the construction of a new ore processing plant and to repay its debts. These conditions, along with other matters as set forth in note 2, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Annual Report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Annual Report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Rotterdam, 9 September 2011
PricewaterhouseCoopers Accountants N.V.

N.W. Over de Vest RA

ShalkiyaZinc N.V.
Consolidated Statement of Comprehensive Income

In thousands of USD

	Notes	2010	2009 (restated)
Revenue		–	–
Cost of sales		–	–
Gross profit		**–**	**–**
General and administrative expenses	7	(8,845)	(4,454)
(Impairment)/reversal of impairment of property, plant and equipment and exploration and evaluation assets		(1,426)	1,095
Foreign exchange gains less losses		300	(1,716)
Other operating income		1,509	422
Other operating expenses		(1,378)	(430)
Operating loss		**(9,840)**	**(5,083)**
Finance income	11	293	72
Finance costs	11	(5,211)	(8,044)
Loss before income tax		**(14,758)**	**(13,055)**
Income tax benefit/(expense)	12	785	(4,709)
LOSS FOR THE YEAR		**(13,973)**	**(17,764)**
Other comprehensive loss:			
Exchange differences on translation to presentation currency		(733)	(2,319)
Other comprehensive loss for the year		**(733)**	**(2,319)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(14,706)**	**(20,083)**
Loss attributable to owners of the Company		(13,973)	(17,764)
Loss attributable to non-controlling interest		-	-
Loss for the year		**(13,973)**	**(17,764)**
Total comprehensive loss attributable to owners of the Company		(14,706)	(20,083)
Total comprehensive loss attributable to non-controlling interest		-	-
Total comprehensive loss for the year		**(14,706)**	**(20,083)**
Loss per share			
Basic and diluted loss per share, US cents	20	(247.31)	(314.41)

The notes on pages 33 to 70 form an integral part of these consolidated financial statements

ShalkiyaZinc N.V.
Consolidated Statement of Financial Position

In thousands of USD

	Notes	31 December 2010	31 December 2009 (restated)	1 January 2009 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	13	29,003	30,802	37,232
Long-term portion of VAT receivable	15	2,367	1,427	3,705
Prepayments for non-current assets	16	3,357	3,348	5,765
Restricted cash deposit		–	–	147
Long-term inventories	17	1,255	1,247	1,532
Deferred tax asset	12	2,359	1,593	7,702
		38,341	**38,417**	**56,083**
Current assets				
VAT receivable	15	257	2,022	2,942
Inventories	17	532	2,058	1,623
Other receivables	18	91	334	331
Prepayments	16	58	397	353
Cash and cash equivalents	19	300	57	502
		1,238	**4,868**	**5,751**
TOTAL ASSETS		**39,579**	**43,285**	**61,834**
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent	20			
Share capital		83	83	83
Share premium		62,164	62,164	62,164
Cumulative currency translation reserve		36	769	3,088
Accumulated deficit		(80,941)	(66,968)	(49,204)
		(18,658)	**(3,952)**	**16,131**
Non-current liabilities				
Bank borrowings	21	–	–	22,633
Provision for future site restoration	22	5,615	4,896	4,489
Due to the Republic of Kazakhstan	23	1,440	1,372	2,200
Long-term trade payables	24	–	–	1,887
		7,055	**6,268**	**31,209**
Current liabilities				
Bank borrowings	21	34,790	31,088	7,866
Trade and other payables	24	13,302	8,774	5,477
Due to SAT	27	2,205	–	–
Income tax payable		100	58	–
Tax payable other than income tax		69	394	496
Advances received		716	655	655
		51,182	**40,969**	**14,494**
TOTAL EQUITY AND LIABILITIES		**39,579**	**43,285**	**61,834**

The notes on pages 33 to 70 form an integral part of these consolidated financial statements

ShalkiyaZinc N.V.
Consolidated statement of cash flows

In thousands of USD

	Notes	2010	2009 (restated)
Cash flows from operating activities			
Loss before income tax		(14,758)	(13,055)
Adjustments for:			
Depreciation of property, plant and equipment	10	1,449	1,683
Losses less gains on disposal of property, plant and equipment		241	45
Impairment/(reversal of impairment) of property, plant and equipment and exploration and evaluation assets		1,426	(1,095)
Write down to net realizable value and provision for obsolete inventory	7	1,033	–
Impairment of other receivables and prepayments	7	43	(223)
Foreign exchange loss		(158)	2,353
Interest income	11	(135)	(72)
Interest expense on bank borrowings	11	3,654	3,878
Unwinding of discount on provision for future site restoration	11	394	249
Unwinding of discount on due to the Republic of Kazakhstan	11	151	259
Translation adjustment		(731)	884
Operating cash flow before working capital changes		**(7,391)**	**(5,094)**
Change in other receivables		245	158
Change in inventories		507	(741)
Change in VAT receivable		848	1,974
Change in prepayments		342	(110)
Change in trade and other payables		4,473	2,795
Change in taxes payable		(229)	(10)
Cash used in operating activities		**(1,205)**	**(1,028)**
Interest received		135	72
Net cash used in operating activities		**(1,070)**	**(956)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(905)	(957)
Change in prepayments for non-current assets		13	1,354
Placement of restricted cash		–	120
Net cash (used in) / from investing activities		**(892)**	**517**
Cash flows from financing activities			
Proceeds from borrowings from SAT	27	2,205	–
Net cash from financing activities		**2,205**	**–**
Net increase/(decrease) in cash and cash equivalents		**243**	**(439)**
Effect of exchange rate changes on cash and cash equivalents		–	(6)
Cash and cash equivalents at the beginning of the year		57	502
Cash and cash equivalents at the end of the year	19	**300**	**57**

The notes on pages 33 to 70 form an integral part of these consolidated financial statements

ShalkiyaZinc N.V.
Consolidated statement of changes in equity

in thousands of USD

	Share capital	**Share premium**	**Cumulative currency translation reserve**	**Accumulated deficit**	**Total**
At 1 January 2009 (as reported)	83	62,164	3,091	(45,329)	20,009
Restatements *(Note 6)*	-	-	(3)	(3,875)	(3,878)
At 1 January 2009 (restated)	83	62,164	3,088	(49,204)	16,131
Loss for the year (as reported)	–	–	–	(18,357)	(18,357)
Restatements *(Note 6)*	–	–	–	593	593
Loss for the year (restated)	–	–	–	(17,764)	(17,764)
Other comprehensive loss (as reported)	–	–	(2,898)	–	(2,898)
Restatements *(Note 6)*	–	–	579	–	579
Other comprehensive loss (restated)	–	–	(2,319)	–	(2,319)
Balance at 31 December 2009 (restated)	**83**	**62,164**	**769**	**(66,968)**	**(3,952)**
Loss for the year	–	–	–	(13,973)	(13,973)
Other comprehensive loss	–	–	(733)	–	(733)
Balance at 31 December 2010	**83**	**62,164**	**36**	**(80,941)**	**(18,658)**

The notes on pages 33 to 70 form an integral part of these consolidated financial statements

1. CORPORATE INFORMATION

ShalkiyaZinc N.V. (the "Company" or "ShalkiyaZinc N.V."), a public limited liability company, was incorporated on 6 November 2006 under the laws of the Netherlands. The address of its registered office is Strawinskylaan 411(WTC, Tower A, 4th floor), 1077 XX, Amsterdam, P.O. Box 79141, 1070 ND, Amsterdam, the Netherlands.

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

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

The ultimate beneficial shareholders of the Company as at 31 December 2009 were as follows:

Ultimate Shareholders	Number of Shares	Percentage of the Company's share capital
Rifat Rizoyev	2,818,465	49.88%
Assylbek Abuov	631,000	11.17%
Marat Sarkytbayev and Samat Kazymov	757,199	13.40%
Freefloat in the form of GDRs	1,443,336	25.55%

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

Upon completion of transaction as at 18 January 2011, SAT became the legal owner of 24,715,769 shares (81.39%) of Shalkiya Zinc N.V. in return for a capital investment of USD 50 million into ShalkiyaZinc Ltd. In addition, SAT has made mandatory cash offer for minority shareholders pursuant to UK takeover code. As a result of mandatory cash offer, SAT became a holder of 84.3% interest in the Company. The new shareholders structure is as follows:

Ultimate shareholders	Number of shares	Percentage of the Company's share capital
SAT	25,591,327	84.28%
Former management	1,388,199	4.57%
Other significant shareholders	2,818,465	9.28%
Freefloat in the form of GDRs	566,778	1.87%

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 at the Talap field (the "Talap Subsurface Use Contract"). The term of the Talap Subsurface Use Contract is 20 years.

These consolidated financial statements were authorised for issue on 9 September 2011 by the Company's Board of Directors. The Consolidated Financial Statements are subject to adoption by the Annual General Meeting of Shareholders on 28 October 2011.

2. BASIS FOR PREPARATION

Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out in Note 4. These policies have been consistently applied to all the periods presented, unless otherwise stated. As the corporate financial information of ShalkiyaZinc N.V. is included in the Consolidated Financial Statements, the Corporate Income statement is presented in abbreviated format in accordance with Section 402, Book 2 of The Netherlands Civil Code.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations of International Financial Reporting Interpretations Committee ("IFRIC") as adopted by the European Union.

Political and economic environment

The Republic of Kazakhstan displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Kazakhstani economy and the financial situation in the Kazakhstani financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Kazakhstani economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Kazakhstani Tenge against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Republic of Kazakhstan is subject to varying interpretations and frequent changes (Note 26). The future economic direction of the Republic of Kazakhstan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the Kazakhstani economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

Going concern

Management prepared these consolidated financial statements on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group.

The Group incurred a net loss of USD 13,973 thousand and USD 17,764 thousand for the years ended 31 December 2010 and 2009, respectively. At 31 December 2010, the Group's current liabilities exceeded its current assets by USD 49,944 thousand (2009: USD 36,101 thousand). At 31 December 2010, the Group's accumulated deficit amounted to USD 80,941 thousand (2009: USD 66,968 thousand). As disclosed in Note 1, the Group suspended its production activities and construction of the new ore processing plant since 2008.

The Group's borrowings amounted to USD 34,790 thousand as at 31 December 2010 and are considered as payable on demand due to defaults on the scheduled payments since 2009.

2. BASIS FOR PREPARATION (continued)

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

i) to complete construction of the new processing plant; and

ii) to repay the Group's debt.

Management plans

Per management's assessment processing of the ore at the existing Kentau Processing Plant (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 labour 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 2010, the Group's capital expenditure related to the construction of the new processing plant amounted to USD 23,195 thousand, including USD 3,357 thousand in prepayments. Per management's assessment the Group would need an additional USD 158 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 eighteen months.

Per management's estimate completion of the new processing plant requires financing of approximately USD 158 million. Also, additional financing is required to repay the Group's borrowings and to fund its operating costs (mainly general and administrative expenses).

As disclosed in Note 1, the Group was acquired by SAT via capital contribution of USD 50 million. SAT is a diversified mining and metallurgy group engaged in exploration and development of chrome, manganese and other natural resources. The Group obtained a support letter from SAT which confirms the parent company's intention to support the Group within at least 12 months.

As disclosed in Note 29 the Group has repaid its debt to BTA Bank in full as well as transferred account payable balances in amount of USD 7.44 million to SAT. These measures have positively affected the net current liability position of the Group.

Currently the Group is subject to a number of due diligence studies and is actively looking for the potential investor.

The matters disclosed above indicate the existence of a material uncertainty in obtaining sufficient financing to repay the Group's debts and to complete construction of the new processing plant and resume commercial production. This may cast significant doubt about the Company's ability to continue as a going concern.

Presentation currency

These consolidated financial statements are presented in US dollars ("USD"), unless otherwise stated.

As disclosed in Note 4, the functional currency of the Company and the Subsidiary is the Kazakhstani Tenge ("Tenge"). The Group has chosen to present its consolidated financial statements in USD. 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.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. NEW ACCOUNTING PRONOUNCEMENTS (continued)

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

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

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

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

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

3. NEW ACCOUNTING PRONOUNCEMENTS (continued)

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

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and its Subsidiary use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its Subsidiary is the national currency of the Republic of Kazakhstan, Tenge.

Monetary assets and liabilities are translated into the functional currency at the official exchange rate at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
(ii) income and expenses are translated at average exchange rates (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 dates of the transactions);
(iii) components of equity are translated at the historic rate; and
(iv) all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 147.4 (2009: USD 1 = Tenge 148.36). The principal average rate of exchange used for translating income and expenses was USD 1 = Tenge 147.34 (2009: USD 1 = Tenge 147.5).

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. 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. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

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. Upon commencement of production, development costs are depreciated over the life of the mine using the units-of-production method based on the estimated economically recoverable reserves to which they relate.

Depreciation of property, plant and equipment

Depreciation commences when the asset is available for use. Depreciation is charged so as to write off the cost of assets, other than assets under construction and land, over their estimated useful lives using the straight-line or units-of-production method:

	Useful lives in years
Buildings	10 to 20
Vehicles	7 to 9
Plant and machinery (except for flotation machines)	6 to 7
Other	8 to 10
Mining assets and flotation machines	Units-of-production

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and evaluation assets

Expenditures related to the following activities are initially measured at cost and capitalized as exploration and evaluation 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.

For the purpose of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of operating mines.

Any impairment loss is recognised as an expense in accordance with the policy on impairment of non-financial assets.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Financial assets of the Group represent loans and receivables. Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. The Group's financial assets include cash and cash equivalents and other receivables.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. Management determines the classification of financial assets at initial recognition depending on the purpose for which the financial asset is acquired.

The Group's financial liabilities represent financial liabilities carried at amortised cost. Financial liabilities include bank borrowings, trade payables, due to SAT and due to the Republic of Kazakhstan.

Initial recognition of financial instruments

Financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. For financial assets carried at fair value through profit and loss the transaction costs are expensed in the income statement.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Offsetting 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.

Cash and cash equivalents

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

Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit and loss for the year 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.

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 recognition

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

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.

Income taxes

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets and deferred tax liabilities are offset on the balance sheet only if the Group has the legal right to settle on a net basis and they are levied by the same taxing authority on the same entity or different entities that intend to realise the asset and settle the liability at the same time. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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.

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

Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year.

Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

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 POLICIES (continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group operations and assets comprise of one operating segment accordingly no separate segment reporting information is presented in these consolidated financial statements.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include.

Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group. Refer to Note 2 for details.

Useful life of mining assets and mineral reserves estimates

The mining assets, classified within property, plant and equipment, are depreciated over the respective life of the mine using the unit of production (UOP) method based on proved and probable mineral reserves. Assumptions that were valid when determining mineral reserves may change when new information becomes available. Any changes could affect prospective depreciation rates and asset carrying values.

The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable mineral reserves, which would generally arise as a result of significant changes in any of the factors or assumptions used in estimating mineral reserves.

These factors could include:

- changes to proved and probable mineral reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of mineral reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of mineral reserves.

As the Group suspended its production since 2008, depreciation charge in 2010 and 2009 was nil. As at 31 December 2010 the carrying amount of mining assets was USD 5,170 thousand (2009: USD 4,894 thousand).

Useful lives of other property, plant and equipment

The estimation of the useful lives of other items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Management reviews the appropriateness of assets useful economic lives at least annually; any changes could affect prospective depreciation rates and asset carrying values.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 non-current assets

Note 14 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 for doubtful accounts

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 disclosed in Note 16 and Note 18.

Inventory obsolescence

Inventories are recorded at the lower of cost and net realisable value. The Group recognises an allowance for obsolete and slow-moving inventories based on the results of regular physical count procedure performed at the end of each year. An allowance for obsolete and slow-moving inventories and write down to net realisable value is recognised in profit or loss for the year. Details are disclosed in Note 17.

Taxation

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.
As at 31 December 2010 the Group has tax loss carry forwards amounting to USD 46,846 thousand (2009: USD 36,228 thousand). These losses relate to the Subsidiary, can be carried forward for seven years from the date of origination for tax losses incurred before 1 January 2009 and for ten years for tax losses incurred after 1 January 2009 and may not be used to offset taxable income elsewhere in the Group.
As at 31 December 2010 the Group has not recognized deferred tax assets on tax losses as the management did not consider it probable that future taxable profit will be available against which the deduction can be utilised. Refer to Note 12 for details.

6. RESTATEMENT OF COMPARATIVE INFORMATION

In course of preparation of the consolidated financial statements for the year ended 31 December 2010, the Group identified prior period errors. These errors were corrected by restating the comparative information for the following:

(a) Property plant and equipment recognition cut-off

In 2008 the Group has incorrectly recognized certain mining equipment for which title has not yet passed to the Group. The Group therefore reversed property plant and equipment and related payables. Comparative information has been restated and adjusted. Presented below are the results of the restatement at 31 December 2009 and 1 January 2009 with no effect on the results for 2009. There is no effect in 2010.

In thousands of USD	**1 January 2009**	**31 December 2009**
Decrease in property, plant and equipment	(1,619)	(1,318)
Decrease in trade and other payables	1,619	1,318
Impact on equity	**–**	**–**

(b) Property plant and equipment depreciation

In the consolidated financial statements prepared in accordance with IFRS for the year 2009, the Group incorrectly calculated and recorded depreciation of certain property plant and equipment. Comparative information has been restated and adjusted. Presented below are the results of the restatement at 31 December 2009 and 1 January 2009 and its effect on profit for 2009. There is no effect in 2010.

In thousands of USD	**1 January 2009**	**31 December 2009**
Decrease in property, plant and equipment	(2,259)	(934)
Impact on equity	**(2,259)**	**(934)**

In thousands of USD	**2009**
Decrease in general and administrative expenses	916
Impact on profit and loss	**916**

(c) Revision of provision for future site restoration

In the consolidated financial statements prepared in accordance with IFRS for the year 2009, the Group assessed expenditures expected to be required to settle the obligation on site restoration based on nominal cost estimate made in 2006 that has not been revised at 1 January 2009 and 31 December 2009. Management concluded that this cost estimate was not valid at these dates given actual inflation for the period from the date of original cost estimate. Accordingly, in preparing these consolidated financial statements cost estimates at 1 January 2009 and 31 December 2009 were adjusted for actual inflation for the period from 2006 to the respective dates. Comparative information has been restated and adjusted to correct this error.

6. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

Presented below are the results of the restatement at 31 December 2009 and 1 January 2009 and its impact on profit and loss for 2009. There is no effect in 2010.

In thousands of USD	**1 January 2009**	**31 December 2009**
Increase in property, plant and equipment	600	2,268
Increase in provision for future site restoration	(792)	(2,765)
Impact on equity	**(192)**	**(497)**

In thousands of USD	**2009**
Increase in finance costs	(249)
Impact on profit and loss	**(249)**

(d) Work in progress write-off

In the consolidated financial statements prepared in accordance with IFRS for the year 2009, the Group incorrectly recorded certain costs of sold goods in 2008 to work in progress at 1 January 2009 and 31 December 2009. Comparative information has been restated and adjusted to correct this error. Presented below are the results of the restatement at 31 December 2009 and 1 January 2009 with no effect on the results for 2009. There is no effect in 2010.

In thousands of USD	**1 January 2009**	**31 December 2009**
Decrease in inventories	(1,442)	(1,175)
Impact on equity	**(1,442)**	**(1,175)**

(e) Impairment of wear plates

At 1 January 2009 inventories included the wear plates at cost of USD 954 thousand. The wear plates were produced exclusively for the Kentau Processing Plant which was fully impaired at 1 January 2009. Management determined that net realisable value of the wear plates at 1 January 2009 is nil, and therefore fully wrote down cost of the wear plates at that date. Comparative information has been restated and adjusted to correct this error. Presented below are the results of the restatement at 31 December 2009 and 1 January 2009 with no effect on the results for 2009. There is no effect in 2010.

In thousands of USD	**1 January 2009**	**31 December 2009**
Decrease in inventories	(954)	(776)
Impact on equity	**(954)**	**(776)**

6. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

(f) Deferred income tax

The Group adjusted deferred income tax asset to reflect effects of the restatements above. Presented below are the results of the restatement at 31 December 2009 and 1 January 2009 and its impact on profit and loss for 2009. There is no effect in 2010.

In thousands of USD	**1 January 2009**	**31 December 2009**
Increase in deferred income tax asset	969	676
Impact on equity	**969**	**676**

In thousands of USD	**2009**
Increase in income tax expense	(74)
Impact on profit and loss	**(74)**

(g) Other adjustments and reclassifications

- The Group reclassified certain inventories at 31 December 2009 of USD 1,247 thousand that it that expected to sell during the period more than twelve months after this date to non-current assets (1 January 2009: USD 1,532 thousand).
- In these consolidated financial statements the Group reclassified foreign exchange losses on borrowings for 2009 in the amount of USD 2,353 thousand into finance costs.
- In these consolidated financial statements the Group presented other operating income for 2009 of USD 422 thousand and other operating expenses of USD 430 thousand on gross basis.

In thousands of USD	**1 January 2009**	**31 December 2009**
Increase in:		
Long-term inventories	1,532	1,247
Decrease in:		
Inventories	(1,532)	(1,247)

In thousands of USD	**2009**
Increase in:	
Other operating income	422
Other operating expenses	(422)
Finance costs	(2,353)
Decrease in:	
Foreign exchange losses less gains	2,353

6. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

Effect of restatement on the individual items of the statement of financial position as at 1 January 2009 and 31 December 2009:

	1 January 2009		**31 December 2009**	
In thousands of USD	**As reported**	**Restated**	**As reported**	**Restated**
Property, plant and equipment	40,510	37,232	30,786	30,802
Long-term portion of VAT receivable	3,705	3,705	1,427	1,427
Prepayments for non-current assets	5,765	5,765	3,348	3,348
Restricted cash deposit	147	147	–	–
Long-term inventories	–	1,532	–	1,247
Deferred tax asset	6,733	7,702	917	1,593
VAT receivable	2,942	2,942	2,022	2,022
Inventories	5,551	1,623	5,256	2,058
Other receivables	331	331	334	334
Prepayments	353	353	397	397
Cash and cash equivalents	502	502	57	57
Share capital	83	83	83	83
Share premium	62,164	62,164	62,164	62,164
Cumulative currency translation reserve	3,091	3,088	193	769
Accumulated deficit	(45,329)	(49,204)	(63,686)	(66,968)
Long-term bank borrowings	22,633	22,633	–	–
Provision for future site restoration	3,697	4,489	2,131	4,896
Due to the Republic of Kazakhstan	2,200	2,200	1,372	1,372
Long-term trade payables	1,887	1,887	–	–
Short-term bank borrowings	7,866	7,866	31,088	31,088
Trade and other payables	7,096	5,477	10,092	8,774
Income tax payable	–	–	58	58
Tax payable other than income tax	496	496	394	394
Advances received	655	655	655	655

Effects of restatements on the individual profit and loss items for 2009:

In thousands of USD	**As reported**	**Restated**
Revenue	–	–
Cost of sales	–	–
General and administrative expenses	(5,370)	(4,454)
(Impairment)/reversal of impairment of property, plant and equipment and exploration and evaluation assets	1,095	1,095
Foreign exchange gains less losses	(4,069)	(1,716)
Other operating income	-	422
Other operating expenses	(8)	(430)
Finance income	72	72
Finance costs	(5,442)	(8,044)
Income tax benefit/(expense)	(4,635)	(4,709)
Basic and diluted loss per share, US cents	(324.9)	(314.41)

The revised IAS 1, Presentation of Financial Statements, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. The opening statement of financial position is presented in these financial statements as a result of changes in presentation made following the adoption of the revised IAS 1 from 1 January 2009, including the introduction of the statement of comprehensive income.

6. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the financial statements that the other notes have not been impacted by the restatement or reclassification. The omission of the notes to the additional opening statement of financial position is therefore, in management's view, not material.

7. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of USD	**2010**	**2009 (restated)**
Consulting services	2,549	403
Fines and penalties	1,502	–
Depreciation*(Note 10)*	1,449	1,683
Payroll and related taxes *(Note 8)*	1,193	1,293
Write down to net realizable value and provision for obsolete inventory *(Note 17)*	1,033	–
Maintenance costs	298	39
VAT impairment	82	–
Rent	74	81
Provision/(reversal of) for doubtful accounts	43	(223)
Materials	25	149
Communication	18	22
Bank charges	8	7
Other	571	1,000
	8,845	**4,454**

8. PERSONNEL EXPENSES

In thousands of USD	**2010**	**2009**
Consulting services	1,077	1,191
Fines and penalties	116	102
	1,193	**1,293**

9. AVERAGE NUMBER OF EMPLOYEES

In thousands of USD	**2010**	**2009**
Directors	1	4
Kentau Processing Plant	31	33
Shalkiya mine	82	68
Administrative personnel	16	22
	130	**127**

10. DEPRECIATION

In thousands of USD	2010	2009 (restated)
Mine development costs	50	92
Buildings and constructions	144	143
Machinery and production equipment	1,167	1,356
Vehicles	51	53
Other	37	39
	1,449	**1,683**

11. FINANCE INCOME AND COSTS

In thousands of USD	2010	2009 (restated)
Finance income		
Interest income on bank deposits	135	72
Foreign exchange gains less losses on borrowings	158	–
	293	**72**
Finance costs		
Interest expense on bank borrowings (*Note 21*)	3,654	3,878
Commission on letter of credit	1,012	788
Unwinding of discount on provision for future site restoration (*Note 22*)	394	249
Unwinding of discount on due to the Republic of Kazakhstan (*Note 23*)	151	259
Foreign exchange losses less gains on borrowings	–	2,353
Unwinding of discount on long–term trade payables	–	517
	5,211	**8,044**

12. INCOME TAX

(a) Components of income tax (benefit) / expense

Income tax (benefit)/ expense recorded in profit or loss comprises the following:

In thousands of USD	2010	2009 (restated)
Current tax	–	58
Deferred tax	(785)	4,651
	(785)	**4,709**

12. INCOME TAX (continued)

(b) Reconciliation between the tax charge and profit or loss multiplied by applicable tax rate

A reconciliation between the expected and the actual taxation charge is provided below:

In thousands of USD	**2010**	**2009 (restated)**
Loss before income tax	**(14,758)**	**(13,055)**
Theoretical tax benefit at statutory rate of 20%:	(2,952)	(2,611)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Fines and penalties	328	–
Other non-deductible expenses	122	1,890
Effect of change in tax rate	(407)	(60)
Prior year adjustment	–	58
Change in unrecognised deferred tax assets	2,124	5,432
Income tax (benefit)/expense for the year	**(785)**	**4,709**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Republic of Kazakhstan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%).

In thousands of USD	**1 January 2009**	**Recorded to profit or loss**	**Recorded to other comprehensive loss**	**31 December 2009**
Tax effect of deductible/(taxable) temporary differences				
Property, plant and equipment	2,120	(1,471)	(384)	265
Inventories	479	–	(89)	390
Trade and other receivables	62	(28)	(11)	23
Provision for future site restoration and Due to the Republic of Kazakhstan	361	817	(72)	1,106
Long term payable	95	(78)	(17)	–
Tax losses carried forward	5,432	(4,451)	(981)	–
Bank borrowings	(847)	560	96	(191)
Net deferred tax asset	**7,702**	**(4,651)**	**(1,458)**	**1,593**
Recognised deferred tax asset	8,549	(5,211)	(1,554)	1,784
Recognised deferred tax liability	(847)	560	96	(191)
Net deferred tax asset	**7,702**	**(4,651)**	**(1,458)**	**1,593**

12. INCOME TAX (continued)

In thousands of USD	**1 January 2010**	**Recorded to profit or loss**	**Recorded to other comprehensive loss**	**31 December 2010**
Tax effect of deductible/(taxable) temporary differences				
Property, plant and equipment	265	295	2	562
Inventories	390	–	(27)	363
Trade and other receivables	23	–	–	23
Provision for future site restoration and Due to the Republic of Kazakhstan	1,106	298	7	1,411
Bank borrowings	(191)	192	(1)	-
Net deferred tax asset	**1,593**	**785**	**(19)**	**2,359**
Recognised deferred tax asset	1,784	593	(18)	2,359
Recognised deferred tax liability	(191)	192	(1)	-
Net deferred tax asset	**1,593**	**785**	**(19)**	**2,359**

At 31 December 2010, deferred tax assets of USD 2,359 thousand (2009: USD 1,593 thousand) are classified within non-current assets as the Group does not expect settlement of this assets with 12 month subsequent to the reporting date.

Due to 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 the deferred tax assets on the tax losses carried forward were not recognized.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

The entities based in Kazakhstan are subject to income tax on taxable profit as determined under the laws of the Republic of Kazakhstan. The income tax rate was 20% in both 2010 and 2009. In November 2009, an amendment to the corporate income tax rate reducing schedule was enacted to reduce the corporate income tax rate to 17.5% effective from 1 January, 2013 and 15% effective from 1 January 2014. However, during 2010 changes occurred and the rate was fixed at 20% from 1 January 2011 and for subsequent years. The settlement of the rate at a level higher than anticipated in the prior year has positively impacted the current period valuation of the Group's deferred taxes and resulted in increase in deferred tax assets.

13. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

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 2009 (restated)	48	5,686	4,810	30,190	559	774	23,865	65,932
Additions	–	1,003	–	3	–	7	1,205	2,218
Disposals	–	–	(70)	–	–	–	–	(70)
Translation difference	(9)	(1,061)	(893)	(5,610)	(104)	(144)	(4,442)	(12,263)
At 31 December 2009 (restated)	39	5,628	3,847	24,583	455	637	20,628	55,817
Additions	–	294	–	3	–	–	819	1,116
Disposals	–	–	(1)	(347)	(142)	(8)	(45)	(543)
Translation difference	–	37	25	160	3	4	134	363
At 31 December 2010	**39**	**5,959**	**3,871**	**24,399**	**316**	**633**	**21,536**	**56,753**
Accumulated depreciation and impairment								
At 1 January 2009	–	(789)	(3,405)	(22,657)	(250)	(398)	(1,201)	(28,700)
Depreciation charge	–	(92)	(143)	(1,356)	(53)	(39)	–	(1,683)
Disposals	–	–	25	–	–	–	–	25
Translation difference	–	147	633	4,218	48	74	223	5,343
At 31 December 2009	–	(734)	(2,890)	(19,795)	(255)	(363)	(978)	(25,015)
Depreciation charge	–	(50)	(144)	(1,167)	(51)	(37)	–	(1,449)
Impairment	–	–	(140)	(420)	(5)	(30)	(831)	(1,426)
Disposals	–	–	1	214	83	4	–	302
Translation difference	–	(5)	(19)	(128)	(2)	(2)	(6)	(162)
At 31 December 2010	**–**	**(789)**	**(3,192)**	**(21,296)**	**(230)**	**(428)**	**(1,815)**	**(27,750)**
Net book value								
At 1 January 2009	48	4,897	1,405	7,533	309	376	22,664	37,232
At 31 December 2009	39	4,894	957	4,788	200	274	19,650	30,802
At 31 December 2010	**39**	**5,170**	**679**	**3,103**	**86**	**205**	**19,721**	**29,003**

Mine development costs represent capitalised estimated future costs of mine closure, restoration and environmental rehabilitation. Additions to mine development costs in 2010 of USD 294 thousand represent the increase in provision for future site restoration due to the change in estimate of site restoration costs (2009: increase of USD 1,003 thousand) (Note 22).

Property, plant and equipment with a net carrying value of USD 15,037 thousand and USD 15,956 thousand, at 31 December 2010 and 2009 respectively, have been pledged to secure Group's borrowings.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

As at 31 December 2010 the construction in progress included the following:

In thousands of USD	**2010**	**2009 (restated)**
Tower-type drop hammer	6,697	5,848
Mine winders	6,397	6,355
Capitalised costs on increase of capacity	5,229	5,220
Capital repair of canteen building	831	825
Headframe workshop unit	800	795
Flotation equipment	409	407
Loading bridge	350	347
Other	823	831
Less: impairment provision	(1,815)	(978)
	19,721	**19,650**

14. IMPAIRMENT

At 31 December 2010 and 2009 the Group performed impairment test for its property, plant and equipment related to the Shalkiya mine and new processing plant (the Shalkiya CGU).

The Shalkiya CGU

The measurement of fair value of property, plant and equipment of mentioned generating unit was carried out by an independent professional appraiser. Fair value of property, plant and equipment was measured on the basis of the recoverability of mentioned assets using the discounted cash flow method. The Group concluded that cost to sell these assets is not significant, and, therefore, their fair value determined at 31 December 2010 approximates their recoverable amount. Applied pre-tax discount rate of 19.5% is based on the Group's weighted average cost of capital.

Fair value of property, plant and equipment at 31 December 2010 comprised USD 202,427 thousand. The Group recorded impairment to certain specific non-operating fixed assets in the amount of USD 1,426 thousand.

The Kentau Processing Plant and the Talap exploration and evaluation assets.

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 Processing Plant 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 property, plant and equipment of the Kentau Processing Plant and exploration and evaluation assets to the Talap field with the carrying value of USD 16,045 thousand due to the management's decision to cease production on the Kentau Processing Plant.

In 2009, due to the changes in expected timing of settlement of dues to the Republic of Kazakhstan (*Note 23*), the Group decreased the carrying value of exploration and evaluation assets related to the Talap field and reversed related impairment of USD 1,095 thousand.

15. VAT RECEIVABLE

At 31 December 2010, VAT receivable amounted to USD 2,624 thousand (2009: USD 3,449 thousand). At 31 December 2010, VAT receivable of USD 2,367 (2009: USD 1,427 thousand) is classified within non-current assets as the Group expects reimbursement of this VAT receivable in 2012.

16. PREPAYMENTS

In thousands of USD	**2010**	**2009**
Prepayments for equipment and machinery	3,357	3,370
Prepayments for consumables and services	179	678
Less: allowance for impairment	(121)	(303)
	3,415	**3,745**
Classified as:		
Non-current	3,357	3,348
Current	58	397
	3,415	**3,745**

Prepayments as at 31 December 2010 include up-front prepayment of USD 3,357 thousand made in 2007 to Outotec OY for the supply of mills. Due to suspension of production in November 2008, supply of mills has not been completed. Currently management of the Group is in the process of negotiation on the terms with Outotec OY to either refund the outstanding amount or agree on delivery of the mills by 2013 as soon as operation of the new plant will be resumed. The management of the Group is in a strong position that the prepayment is fully recoverable.

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

In thousands of USD	**2010**	**2009**
Allowance at the beginning of the year	303	773
Charge for the year	43	–
Write offs	(227)	(329)
Translation difference	2	(141)
Allowance at the end of the year	**121**	**303**

17. INVENTORIES

In thousands of USD	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
Stores and materials	2,574	3,115	3,811
Finished products	36	35	40
Work in progress	1,308	1,378	808
Less: provision for obsolescence and write-down to net realisable value	(2,131)	(1,223)	(1,504)
	1,787	**3,305**	**3,155**

17. INVENTORIES (continued)

In thousands of USD	2010	2009 (restated)	1 January 2009 (restated)
Classified as:			
Non-current	1,255	1,247	1,532
Current	532	2,058	1,623
	1,787	**3,305**	**3,155**

As at 31 December 2010 finished goods and work-in-progress were written down to net realisable value in amount of USD 1,033 thousand. The movements in the provision for obsolescence and write-down to net realisable value were as follows for the years ended 31 December:

In thousands of USD	2010	2009 (restated)
Provision at the beginning of the year	1,223	1,504
Charge for the year *(Note 7)*	1,033	–
Write offs	(133)	–
Translation difference	8	(281)
Provision at the end of the year	**2,131**	**1,223**

18. OTHER RECEIVABLES

In thousands of USD	2010	2009
Other financial receivables	204	447
Less: allowance for doubtful debts	(113)	(113)
	91	**334**

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

In thousands of USD	2010	2009
Allowance at the beginning of the year	113	411
Recovered	–	(223)
Translation difference	–	(75)
Allowance at the end of the year	**113**	**113**

As at 31 December, the ageing analysis of 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
2010	91	17	–	8	6	60	–
2009	334	–	–	–	–	334	–

At 31 December 2010 and 2009, the Group's other receivables were denominated in Tenge.

19. CASH AND CASH EQUIVALENTS

In thousands of USD	**2010**	**2009**
Cash in banks, KZT denominated	263	–
Cash on hand, KZT denominated	25	2
Cash in banks, EUR denominated	7	28
Cash in banks, USD denominated	5	27
	300	**57**

20. 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 and legal reserves of the Company.

Foreign currency translation reserve

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

Loss per share

The numerator for the calculation of the basic loss per share for the year ended 31 December 2010 is the loss after tax of USD 13,973 thousand (2009: USD 17,764 thousand) and the denominator for the calculation of the basic loss per share is 5,650,000.

	For the year ended	
	31 December 2010	**31 December 2009**
Loss per share, *in US cents*	(247.31)	(314.41)
Diluted loss per share, *in US cents*	(247.31)	(314.41)
Loss attributable to ordinary shareholders, in thousands of USD	(13,973)	(17,764)
Issued ordinary shares at the end of the year	5,650,000	5,650,000

The loss per share including subsequently issued 24,715,769 shares amounted to USD 46.02 cents.

21. BANK BORROWINGS

In thousands of USD	2010	2009
Opening balance	31,088	30,499
Interest expense for the period *(Note 11)*	3,654	3,878
Foreign exchange difference *(Note 11)*	(158)	2,353
Translation difference	206	(5,642)
	34,790	**31,088**

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 15,037 thousand at 31 December 2010 (2009: USD 15,956 thousand).

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.

On 30 June 2011, the Group restructured its loans to BTA Bank JSC. As a result of restructuring, the Group was granted with favourable terms. In particular, interest rate was decreased from 16% to 7.5% per annum, retrospectively.

On 30 June 2011, following debt restructuring referred to above, the Group has repaid its debt to BTA Bank in full.

In 2007 Group entered into the agreement with BTA Bank on irrevocable letter of credit to be issued by BTA Bank to the Group's suppliers. In accordance with the agreement servicing fee on a letter of credit is set at 6% per annum on utilized amount. The Group did not utilise the letter of credit and therefore did not recognise related liability. However, the Group recognised servicing fee on the letter of credit in 2010 of USD 1,012 thousand (2009: USD 788 thousand).

As of 31 December 2010, the amount of letter of credit not recognised by the Group comprises USD 12,661 thousand.

The borrowings comprised the following at 31 December:

In thousands of USD	2010	2009
Fixed interest rate borrowings	34,022	30,456
Weighted average interest rate	16.00%	16.00%
Variable interest rate borrowings	768	632
Weighted average interest rate	11.55%	11.55%

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

In thousands of USD	2010	2009
US Dollar	14,179	13,844
Tenge	19,833	16,596
Roubles	778	648
	34,790	**31,088**

22. PROVISION FOR FUTURE SITE RESTORATION

In thousands of USD	**2010**	**2009**
At 1 January	4,896	4,489
Change in estimate	294	1,003
Unwinding of discount	394	249
Translation difference	31	(845)
At 31 December	**5,615**	**4,896**

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 2010:

- The total undiscounted amount of estimated future cash expenditure to be incurred is Tenge 12,248,306 thousand (USD 83,096 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 5.1% per annum (2009: 3.9%);
- The discount rate applied is 8% per annum (2009: 8%).

23. DUE TO THE REPUBLIC OF KAZAKHSTAN

In thousands of USD	**2010**	**2009**
At 1 January	1,628	2,200
Change in estimate	(83)	(1,095)
Arising during the year	–	258
Repayment during the year	(256)	–
Unwinding of discount	151	259
Foreign exchange differences	41	6
	1,481	**1,628**
Classified as:		
Non-current	1,440	1,372
Current	41	256
At 31 December	**1,481**	**1,628**

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 Tenge 580,765 thousand (USD 3,943 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.
- The discount rate applied is 12% per annum.

24. TRADE AND OTHER PAYABLES

In thousands of USD	2010	2009 (restated)	1 January 2009 (restated)
Trade payables for purchased property, plant and equipment	5,371	4,601	3,593
Trade payables for services	3,624	125	1,333
Other	41	256	–
Total financial payables	*9,036*	*4,982*	*4,926*
Accrued expenses	4,016	3,003	1,693
Payables to employees	244	117	565
Other	6	672	180
	13,302	**8,774**	**7,364**
Classified as:			
Non-current	–	–	1,887
Current	13,302	8,774	5,477
	13,302	**8,774**	**7,364**

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

In thousands of USD	2010	2009 (restated)	1 January 2009 (restated)
US Dollar	4,632	3,092	3,593
Euro	1,175	1,175	565
Tenge	3,229	715	768
	9,036	**4,982**	**4,926**

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of cash and cash equivalents, other receivables, borrowings, trade and other financial payables and Due to the Republic of Kazakhstan.

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.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

	2010		2009	
	Increase / decrease in basis points	Effect on profit before tax	Increase / decrease in basis points	Effect on profit before tax
US Dollar	+100	(8)	+100	(6)
	-25	2	-25	2

* 1 basis point = 0.01%

Currency risk

As a result of significant borrowings, trade and other financial payables, 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).

2010		
US Dollar	+19.5%	(3,956)
	-19.5%	3,956
EUR	+21.8%	(255)
	-21.8%	255
RUR	+24.3%	189
	-24.3%	(189)
2009		
US Dollar	+19.5%	(3,615)
	-19.5%	3,615
EUR	+21.8%	(250)
	-21.8%	250
RUR	+24.3%	(157)
	-24.3%	157

Credit risk

The Group endeavours to trade only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on 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 an entity will encounter difficulty in meeting obligations associated with financial liabilities.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2010						
Bank borrowings	34,790	–	–	–	–	34,790
Trade and other financial payables	8,995	–	41	–	–	9,036
Due to SAT	2,205	–	–	–	–	2,205
Due to the Republic of Kazakhstan	–	–	–	789	651	1,440
	45,990	**–**	**41**	**789**	**651**	**47,471**
At 31 December 2009						
Bank borrowings	31,088	–	–	–	–	31,088
Trade and other financial payables	4,727	256	–	–	–	4,982
Due to the Republic of Kazakhstan	–	–	–	–	1,372	1,372
	35,815	**256**	**–**	**–**	**1,372**	**37,442**

Subsequent to the reporting date the Group's liabilities have significantly decreased via repayment of the BTA Bank loan and transferring of certain significant account payable balances to SAT (Note 29).

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	**2010**	**2009**	**2010**	**2009**
Financial assets				
Cash and cash equivalents	300	57	300	57
Other receivables	91	334	91	334
Financial liabilities				
Bank borrowings	34,790	31,088	34,790	31,088
Trade and other financial payables	9,036	4,982	9,036	4,982
Due to the Republic of Kazakhstan	1,440	1,372	1,440	1,372

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the year ended 31 December 2010. Due to suspension of production in November 2008, the group does not generate sufficient cash to finance its operations. Accordingly, the Group heavily relies on external financing (from related parties). The decisions in respect of the Group's financing activities (either through equity or debt) are made by the Group's owner and out of scope of Management's authority. The Group considers total capital under management to be equity as shown in the consolidated statement of financial position.

Fair value estimation

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress financial instruments of companies facing the financial difficulties, and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments. Based on the latest estimations the carrying value of financial assets and liabilities equals to its fair value as at 31 December 2010.

Financial assets carried at amortised cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables, other financial receivables and other financial non-current assets approximate fair values.

Liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amount of trade payables and borrowings approximates their fair values.

26. 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. Management believes that as at 31 December 2010 the Group fully complies with Kazakhstani personnel training requirements.

Liquidation fund

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

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

At 31 December 2010, 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:

Contractual area	Work program term	Minimum volume for the entire period	Unimplemented part of minimal work program as of 31 December 2010	Amount subject to implementation in 2011
Shalkiya	2002 – 2046	81,244	81,244	–

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.

Capital commitments

As at 31 December 2010, the Group had the following capital commitments:

- Purchase of mine hoisting engines from Midiel AB for USD 1,332 thousands (USD 1,452 thousands)
- Purchase of mine equipment from Atlas Copco for USD 3,927 thousands (2009: USD 3,949 thousands)

Insurance

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

Taxation

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

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

26. COMMITMENTS AND CONTINGENCIES (continued)

Environmental matters

The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. In 2010 and 2009, the Group was a defendant in a legal action involving alleged environmental pollution. As of 31 December 2010 the Group created provision in amount of USD 1,114 thousands for environmental pollution. It is not anticipated that any further material obligation will arise from these contingent liabilities other than USD 1,114 thousands for the Group has already created provision.

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

27. RELATED PARTY TRANSACTIONS

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

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

Key management personnel comprise members of the Group's management and members of Supervisory Board, totalling four persons at 31 December 2010 (31 December 2009: four persons). Compensation to key management personnel consists of short-term employee benefits. Since the Company does not pay social securities or pensions, all salary payments are considered as short-term employee benefits. Total compensation paid to key management personnel amounted to USD 528 thousand for the year ended 31 December 2010 (31 December 2009: USD 279 thousand). There were no payments to the Non-Executive Directors in 2010 and 2009, except for those included in the table below.

27. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel (continued)

In thousands of USD

Name	Position	2010	2009
Sarkytbaev Marat	General Director	224	155
Abuov Asylbek	Deputy General Director	166	52
Azelgareyeva Ramilya	Director of Finance and Economics Department	83	36
Kazymov Samat	Business Development Director	36	36
Alken Kuanbay	Chief Financial Officer	19	–
Total		**528**	**279**

Financial aid from SAT

During the 12 months ended 31 December 2010 the Group received the financial aid from SAT in the amount of USD 2,205 thousands. Borrowings from SAT are due on demand.

28. AUDITORS' REMUNERATION

In thousands of USD	2010	2009
Audit of financial statements of the Group	55	110

29. SUBSEQUENT EVENTS

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

On 30 June 2011, the Group restructured its loans to BTA Bank. As a result of restructuring the Group was granted with favourable terms. In particular, interest rate was decreased from 16% to 7.5% per annum, retrospectively.

On 30 June 2011, following debt restructuring referred to above, the Group has repaid its debt to BTA Bank in full.

On 30 March 2011, SAT has accepted accounts payable of ShalkiyaZinc Ltd. to Atlas Copco Customer Finance AB in amount of USD 3.64 million.

On 1 April 2011, SAT has accepted accounts payable of ShalkiyaZinc Ltd. to Midiel A.B. in amount of USD 5.4 million.

As a result of above actions, the Group's total debt decreased by $43.7 mln. The Group's debt restructuring continues and its completion depends on results of negotiations with the Group's creditors.

Company Income Statement of ShalkiyaZinc N.V.

FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of USD	**Notes**	**2010**	**2009 (restated)**
Result of subsidiary after taxation		-	-
Other income and expenses	6	(1,363)	9,532
Net loss		**(1,363)**	**9,532**

Company Balance Sheet of ShalkiyaZinc N.V.

AS AT 31 DECEMBER 2010
(After proposed appropriation of results)

In thousands of USD	Notes	31 December 2010	31 December 2009 (restated)
ASSETS			
Non-current assets			
Long term loan to the Subsidiary	3	–	–
Investment in the Subsidiary	5	–	–
		–	**–**
Current assets			
Short-term portion of VAT receivable		153	19
Short-term loan to the Subsidiary	4	–	–
Receivable from the Subsidiary		–	–
Other receivables		29	–
Cash and cash equivalents		10	49
		192	**68**
TOTAL ASSETS		**192**	**68**
Shareholders' equity and liabilities			
Shareholders' equity	7		
Share capital		75	81
Share premium		62,164	62,164
Cumulative currency translation reserve		36	769
Accumulated deficit		(64,970)	(63,613)
		(2,695)	**(599)**
Current liabilities			
Other accrued liabilities		2,269	667
Short-term loan		618	–
		2,887	**667**
TOTAL EQUITY AND LIABILITIES		**192**	**68**

Notes to the company financial statements

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 associates and subsidiaries are stated at net asset value. For more information on the accounting policies applied, and on the notes to the consolidated financial statements, please refer to pages 38 to 46.

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.

As disclosed in the consolidated financial statements, the Company is the sole shareholder of LLP ShalkiyaZinc Ltd, located in 279, Furmanov Street, Almaty, the Republic of Kazakhstan.

Basis of preparation

These financial statements are prepared in accordance with the IFRS on the basis of going concern principle which assumes the realisation of assets and settlement of liabilities in the normal course of business in the foreseeable future. Uncertainties related to the events and conditions that may cast a significant doubt upon the Company's ability to continue as a going concern are presented in Note 2 of the consolidated financial statements.

Financial assets and liabilities

Amounts owed by group companies, which are interest bearing, are initially recorded at fair value and subsequently remeasured at amortised cost using the effective interest method.

Amounts owed to group companies and term borrowings, which are interest and non-interest bearing, are initially recorded at fair value, net of transaction costs incurred, and subsequently remeasured at amortised cost using the effective interest method.

Finance income and expenses are accounted for on an accrual basis using the effective interest method.

2. RESTATEMENT OF COMPARATIVE INFORMATION

In course of preparation of the Company financial statements for the year ended 31 December 2010, management identified prior period errors. These errors were corrected by restating the comparative information for the following:

(a) Long term loan to the Subsidiary

In the Company financial statements for the year 2009, the Company treated the "profit linking feature" in the long-term loan to the Subsidiary that bears an annual interest rate based upon the pre-tax profit earned by the Subsidiary as an embedded derivative. This financial instrument was accounted for as non-current liability at fair value through profit and loss. In 2010 management revisited their approach and concluded that there is no derivative embedded into the loan agreement as the profitability of the Subsidiary is a non-financial variable specific to the entity. Instead, estimates of future interest payments from the Subsidiary were adjusted against the amortised cost of the long-term loan to the Subsidiary.

Comparative information has been restated and adjusted. Presented below are the results of the restatement at 31 December 2009 and its effect on profit for 2009.

In thousands of USD	**31 December 2009**
Change in long term loan to the Subsidiary	(22,227)
Change in investment in the Subsidiary	7,398
Change in derivative liability	14,829
Impact on equity	**–**

In thousands of USD	**2009**
Change in result of subsidiary after taxation	1,398
Change in change in other income and expenses	(1,398)
Impact on profit and loss	**–**

2. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

(b) Impairment of the loan to the Subsidiary and receivable from the Subsidiary

In the Company financial statements for the year 2009, the negative equity value of the investment in the Subsidiary was considered to be a provision on the long-term loan due from the Subsidiary. In these financial statements management changed its approach to accounting for long-term loan due from the Subsidiary and recorded impairment provision separately as management believes that long-term loan due from the Subsidiary does not form part of the net investment. Long term loan and short term loan to the Subsidiary and receivable from the Subsidiary were fully impaired as of 1 January 2009.

Comparative information has been restated and adjusted. Presented below are the results of the restatement at 31 December 2009 and its effect on profit for 2009.

In thousands of USD	**31 December 2009**
Change in short term loan to the Subsidiary	(2,674)
Change in receivable from the Subsidiary	(2,232)
Change in long term loan to the Subsidiary	(34,098)
Impact on equity	**(39,004)**

In thousands of USD	**2009**
Change in change in other income and expenses	(3,106)
Impact on profit and loss	**(3,106)**

(c) Restatements of the Subsidiary's financial statements

Comparative information in these financial statements has been restated and adjusted to correct the prior period errors related to the Subsidiary. For more information on the restatement of the Subsidiary's financial statements please refer to Note 6 to the consolidated financial statements. Presented below are the results of the restatement at 31 December 2009 and 1 January 2009 and its effect on profit for 2009.

In thousands of USD	**31 December 2009**
Change in investment in the Subsidiary	(2,706)
Impact on equity	**(2,706)**

In thousands of USD	**2009**
Change in result of the Subsidiary after taxation	593
Impact on profit and loss	**593**

(d) Investment in the Subsidiary

In the Company financial statements for the year 2009, the negative equity value of the investment in the Subsidiary was considered to be a provision on the long-term loan due from the Subsidiary. In these financial statements management changed its approach and reversed lossess of the Subsidiary that exceeded investment in the Subsidiary as the Company does not have legal or constructive obligations or made payments on behalf of the Subsidiary.

2. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

Comparative information has been restated and adjusted. Presented below are the results of the restatement at 31 December 2009 and its effect on profit for 2009.

In thousands of USD	**31 December 2009**
Change in investment in the Subsidiary	42,357
Impact on equity	**42,357**

In thousands of USD	**2009**
Change in result of the Subsidiary after taxation	30,402
Impact on profit and loss	**30,402**

(e) Other minor adjustments

In the Company financial statements for the year 2009, share capital was translated into the presentation currency using the historical exchange. In these financial statements the Company translated the share capital using the exchange rate prevailing at the reporting date following the requirements of the Dutch law (BW2 Title 9 373 lid 5). Comparative information has been restated and adjusted. Presented below are the results of the restatement at 31 December 2009 and its effect on profit for 2009.

In thousands of USD	**31 December 2009**
Change in share capital	(2)
Change in retained earnings	2
Impact on equity	**-**

(f) Effect of restatement on the individual items of the statement of financial position as at 31 December 2009:

	31 December 2009	
In thousands of USD	**As reported**	**Restated**
Short-term loan to the Subsidiary	2,674	–
Receivable from the Subsidiary	2,232	–
Long-term loan to the Subsidiary	56,325	–
Investment in the Subsidiary	(47,049)	–
Derivative liability	14,829	–
Share capital	83	81
Cumulative currency translation reserve	193	769
Accumulated deficit	(63,686)	(63,613)

Effects of restatement on the individual profit and loss items for 2009:

In thousands of USD	**As reported**	**Restated**
Result of the Subsidiary after taxation	(32,393)	-
Other income and expenses	14,036	9,532

3. LONG TERM LOAN TO THE SUBSIDIARY

The movement of the long-term loan is as follows:

In thousands of USD	**2010**	**2009 (restated)**
Opening balance at 1 January, gross	34,098	31,069
Less: impairment loss provision	(34,098)	(31,069)
Opening balance at 1 January	**–**	**–**
Change in estimates of future cash flows	10,011	3,029
Impairment loss	(10,011)	(3,029)
Closing balance at 31 December	44,109	34,098
Less: impairment loss provision	(44,109)	(34,098)
Non-current portion	**–**	**–**

Long-term loan amount of USD 44,109 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.

4. SHORT TERM LOAN TO THE SUBSIDIARY

In thousands of USD	**2010**	**2009 (restated)**
Opening balance at 1 January, gross	2,674	2,900
Less: impairment loss provision	(2,674)	(2,900)
Opening balance at 1 January	**–**	**–**
Repayments over the year	(372)	(1,000)
Borrowing granted during the year	–	774
Reversal of impairment	372	226
Closing balance at 31 December	2,302	2,674
Less: impairment loss provision	(2,302)	(2,674)
Non-current portion	**–**	**–**

Short-term loan in amount of USD 1,528 thousand is payable on demand and bears interest of 12% per annum. The loan granted in 2009 with total amount of USD 774 thousand is short-term and bears no interest.

5. INVESTMENT IN THE SUBSIDIARY

The investment in the Subsidiary is relating to ShalkiyaZinc Ltd LLP. As the accumulated losses of the Subsidiary exceeded the amount of the net investment in 2008, the Company discontinued recognising results of the subsidiary in 2009 and 2010. The Company did not recognise a liability on negative equity of the Subsidiary as the Company does not have legal or constructive obligations or made payments on behalf of the Subsidiary. The negative net asset value of the subsidiary at 31 December 2010 is USD 64,784 thousand.

6. OTHER INCOME AND EXPENSES

In thousands of USD	**2010**	**2009 (restated)**
Income on loans	10,307	3,291
Impairment of loans and receivables	(9,867)	(3,106)
Other expenses	(2,544)	(464)
Foreign exchange gain	741	9,811
	(1,363)	**9,532**

7. SHAREHOLDERS' EQUITY

	Share capital	Share premium	Cumulative currency translation reserve[1]	Accumulated deficit	Total
At 1 January 2009 (restated)	80	62,164	3,088	(73,144)	(7,812)
Loss for the year (restated)	–	–	–	9,532	9,532
Other comprehensive loss (restated)	–	–	(2,319)	–	(2,319)
Revaluation of share capital	1	–	–	(1)	–
Balance at 31 December 2009 (restated)	**81**	**62,164**	**769**	**(63,613)**	**(599)**
Loss for the year	–	–	–	(1,363)	(1,363)
Other comprehensive loss	–	–	(733)	–	(733)
Revaluation of share capital	(6)	–	–	6	–
Balance at 31 December 2010	**75**	**62,164**	**36**	**(64,970)**	**(2,695)**

[1] This is a Legal reserve and therefore not distributable

7. SHAREHOLDERS' EQUITY (continued)

Provided below is the reconciliation of equity reported in the consolidated financial statements and the Company financial statements

In thousands of USD	31 December 2010	31 December 2009 (restated)
Equity per consolidated financial statements	(18,658)	(3,952)
Unrecognised losses of the Subsidiary	64,784	42,357
Impairment of the loan to the Subsidiary	(48,871)	(39,004)
Other differences	50	–
Equity per the Company financial statements	**(2,695)**	**(599)**

8. DIRECTORS REMUNERATION

None of directors received remuneration for their services in 2010 and 2009 respectively. The remuneration of Marat Sarkytbayev and Ramilya Azelgereeva disclosed in Note 27 represents the amount of salary that they have received, as they're employees of the Company, Ramilya Azelgereeva is the Head of Finance and Economic department, Marat Sarkytbayev is the CEO.

9. AVERAGE NUMBER OF EMPLOYEES

As at 31 December 2010 the Company employed 130 employees (31 December 2009: 127 employees).

10. AUDITORS' REMUNERATION

For audit fees, please refer to the Note 28 of consolidated financial statements.

SHALKIYAZINC N.V. BOARDS

BOARD OF DIRECTORS

Rollan Mussinov
Marat Sarktybayev
Daniyar Amanov
Aynur Bidaibekova
Oryngazy Jaboldinov
Murat Perzadaev

ON BEHALF OF THE BOARD OF DIRECTOS

Rollan Mussinov

Amsterdam
9 September 2011

ShalkiyaZinc N.V.

Statutory Seat Rotterdam

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 year ended 31 December 2010 in full to the accumulated losses. This proposal has been reflected in these financial statements.

The Auditors' report

For the Auditor's report, refer to page 28.

Directors' interest

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

Subsequent events

Reference is made to the disclosure note on page 70.