ShalkiyaZinc N.V.

Annual Report and accounts for the year ended 31 December 2011

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Disclaimer

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

CHIEF EXECUTIVE OFFICER's STATEMENT

2011 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 2011 ShalkiyaZinc N.V. ("ShalkiyaZinc N.V." or the "Company") and its subsidiary, LLP ShalkiyaZinc Ltd, (jointly – the "Group") continued to safeguard its main assets - the Shalkiya Mine ("Mine" or "Shalkiya Mine") and the Kentau Processing Plant ("Processing Plant"). This work is being carried out by a special unit. All buildings and facilities are maintained in good shape and well guarded and are 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 114 people.

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 USD 50 million in ShalkiyaZinc N.V. in return for an equity interest equal up to 81.39% of the enlarged issued share capital of the Group.

On 18 January 2011 SAT has formally completed acquisition of newly issued ordinary shares of ShalkiyaZinc N.V. for a total consideration of 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 84.28% interest in the Company.

Restructuring of bank borrowings

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

Financial Summary

For the year ended 31 December 2011, the Group reported an after tax profit of USD 2.8 million, which is mainly explained by the recognition of significant gain related to the restructuring of the bank borrowings.

During 2011, the Group's liabilities decreased by USD 45.4 million which is mainly due to restructuring and transfer of bank borrowings to SAT.

As at 31 December 2011 the Group accumulated deficit of USD 78.3 million and liabilities of USD 7.0 million (2010: USD 81.0 million and liabilities of USD 52.4 million respectively).

Income statement

In 2011, the Group reported an after tax profit of USD 2.8 million against after tax loss of USD 13.8 million in 2010. Such significant change is explained mainly by:

1) restructuring of the Group's bank borrowings in the first half of 2011 in the amount of USD 31 million which resulted in significant gain on restructuring in amount of USD 5.7 million;

2) gain on write-off of accrued servicing fee on a BTA Bank letter of credit in the amount of USD 2.3 million;

3) general and administrative expenses decrease by USD 4.8 million.

During 2011, the Group incurred finance costs of USD 2.0 million against USD 4.9 million incurred in 2010. Such decrease is explained by restructuring of bank borrowings and contemporaneous transfer of bank borrowings of USD 31 million to SAT.

Financial position

During 2011, total assets have increased by USD 7.2 million and amounted to USD 42.1 million. This change is explained mainly by increase in prepayments for non-current assets in amount of USD 2.9 million, increase in advances to SAT in amount of USD 7.1 million, which were offset by decrease in property, plant and equipment by USD 2 million.

During 2011, accumulated deficit decreased by USD 2.8 million due to facts described in “Income statement” section.

During 2011, total liabilities decreased by USD 45.4 million (-87%) from USD 52.4 million to USD 7.0 million at 31 December 2010 and 2011, respectively. This is mainly due to (i) restructuring of borrowings from BTA Bank JSC (ii) decrease in trade and other payables by USD 8.3 million; (iii) decrease in borrowings from related party by USD 2.1 million.

Subsequent events

On 30 January 2012, SAT completed the acquisition of an aggregate number of 4,206,664 shares of the Company from Zinc Investments I B.V., Zinc Investments II B.V. and Zinc Investments III B.V. SAT now owns approximately 98.56% of the entire issued share capital of the Company.

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 USD 50 million is not sufficient to complete the investment program. By the mid of 2013, the Company plans to secure financing enough to execute the strategy of the Group.

Despite suspension of production continued during 2011 the Company strongly believes that production assets of the Company, considerable investments during the past periods, and extraordinary large reserves will ensure implementation of its investment programme. In this connection, the Company plans to secure additional financing by the mid of 2013 either from private placement or debt financing. The strategy for the period up to 2015 developed jointly with international consultants will allow the Company to become a competitive mining and processing company with an output capacity of 56,000 tonnes of zinc in zinc concentrate. Further upon expected completion of the second stage of construction of the New Processing Plant in 2016 the Company plans to achieve an output of more than 112,000 tonnes of zinc in zinc concentrate.

In particular, in accordance with the Company’s financial model, the Company expects a net loss in 2012 and through 2014 whilst it carries out its expansion and development plans, however, the Company estimates that it will receive a net income of USD 31 million in 2015, once the first line of the New Processing Plant is completed. The Company expects to make capital investments of USD 182 million to complete the construction of the New Processing Plant.

Due to the tight situation in the world economical market during 2009-2010 the Company suspended its active implementation of its capital construction programme. However, in 2012 the Company expects positive signs from the global market for non-ferrous metals and the Company plans to resume its investment programme. Various investors from Kazakhstan and the biggest international companies show interest in our Company and are ready to participate in the implementation of our investment programme.

All this makes us confident that with the cessation of crisis and activation of markets in the nearest future the investment in the project on creation of vertical-integrated mining and smelting plant at Shalkiya Mine 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.

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 71 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 30 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:

	2011	**2010**
Directors	1	1
Kentau Processing Plant	30	31
Shalkiya mine	71	82
Administrative personnel	12	16
	114	**130**

New Technologies

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% SiO2 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.

Markets

The main products from the complex ores of Shalkiya Deposit are zinc and lead concentrates. 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.

Global zinc mine production in 2011 increased by 4% to 12.4 million tons, mostly owing to increases in zinc mine production in China, India, Mexico, and Russia. According to the International Lead and Zinc Study Group, refined metal production increased by 3% to 13.2 million tons, while world metal consumption increased by 2% to 12.9 million tons, resulting in a market surplus of 317,000 tons of metal. A smaller surplus is anticipated in 2012. Demand for zinc generally follows industrial production or, more generally, global economic growth. Global economic activity slowed in 2011 from that of 2010, with growth in advanced economies considerably lagging behind those of emerging economies. Significant increases in zinc consumption in 2011 took place in Brazil, China, India, the Republic of Korea, and Turkey. However, in China, the rate of increase in apparent zinc consumption fell in 2011 owing to a destocking of unreported inventories that were built up in 2010. In Europe, zinc consumption increased slightly by 2.5%.

Average annual price on zinc according to the estimation of most experts in 2012 will be US $2,127 per ton. In 2013, 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 $2,301 per ton. In 2013, the world deficit of zinc is possible, which will lead to increase in price to US $2,517 per ton. This rally will continue in 2015 by price increase to US $2,822 per ton in 2014.

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.

RISKS, UNCERTAINTIES AND INTERNAL CONTROL

Risks

LLP ShalkiyaZinc Ltd ("LLP ShalkiyaZinc Ltd" or the "Subsidiary") had a limited operating history and 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 LLP ShalkiyaZinc Ltd may impact LLP ShalkiyaZinc Ltd ability to implement its business plan and may have a material adverse effect on the business, financial condition or results of operations of the Company.

The Board continually assesses and monitors the key risks of the business. The principal risks and uncertainties that could have a material impact on the Group's performance over the remainder of the financial year have not changed from those which are set out in the Group's 2010 Annual Report. That is why in the 4th quarter 2011 and first quarter 2012 the Company undertook risk assessment exercise and identified potential risk areas.

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 2011:

- The majority of the Group's assets are located in Kazakhstan, which has a legal and regulatory regime that differs in some respects from legal and regulatory regimes in other countries. For details, refer to Note 2 to the consolidated financial statements on page 30.
- 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 trade and other financial payables 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 endeavours to trade only with recognised, 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 2011, total current liabilities of the Group amounted to USD 4.6 million.

Uncertainties

As detailed in Note 2 to the consolidated financial statements for the year ended 31 December 2011, significant uncertainties exist regarding the Group's ability to continue as a going concern. As such the primary objective of the Group's capital management 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. On 18 January 2011 SAT completed its USD 50 million capital investment into the Company by acquiring newly issued shares of the Company and the Company was able to restructure and repay the significant part of its debts by the date of this annual report. The Company plans to secure additional financing by the mid of 2013 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 provide a reasonable degree of certainty that the financial statements do not contain any material inaccuracies. However, management identified prior period errors which were corrected by restating the comparative information in these consolidated financial statements. For details of restatements please refer to Note 2 to the consolidated financial statements.

There have been no significant changes in internal control system during 2011.

The Internal Control System at ShalkiyaZinc N.V. has been 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;
- minimising internal and external risks;
- improving the management of assets and liabilities; and
- ensuring the safety of ShalkiyaZinc N.V. 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 realisation 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 an operating loss of USD 3,308 thousand and USD 9,840 thousand for the years ended 31 December 2011 and 2010, respectively. At 31 December 2011, the Group's accumulated deficit amounted to USD 78,271 thousand (2010: USD 81,050 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 ability to continue as a going concern is dependent on the ability to raise financing to complete construction of the new processing plant and to fund its operating costs.

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 2011, the Group's capital expenditure related to the construction of the new processing plant amounted to USD 26,090 thousand, including USD 6,252 thousand in prepayments. Per management's assessment the Group would need an additional USD 182 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 60% at USD 2,465 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.

Also, additional financing is required 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 for at least 12 months after the signing date of the financial statements.

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 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.

Alken Kuanbay
Chief Executive Officer
ShalkiyaZinc N.V.

SHAREHOLDER INFORMATION

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. The Company and its Subsidiary together are further referred to as the Group.

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

In September 2010, the Group signed an investment agreement with SAT, 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 LLP ShalkiyaZinc Ltd. SAT obtained control over the Group on 27 December 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 ShalkiyaZinc N.V. in return for a capital investment of USD 50 million into LLP SalkiyaZinc 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 84.28% interest in the Company. The ultimate beneficial shareholders of the Company as at 31 December 2011 were 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	567,778	1.87%

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

As disclosed in Note 30 to the consolidated financial statements, on 30 January 2012 SAT completed the acquisition of an aggregate number of 4,206,664 shares of the Company from Zinc Investments I B.V., Zinc Investments II B.V. and Zinc Investments III B.V. SAT now owns approximately 98.56% of the entire issued share capital of the Company.

CORPORATE INFORMATION

Directors	Kenges Rakishev, non-executive chairman Rollan Mussinov, non-executive member of the board Alken Kuanbay, executive member of the board
Registered Office	Strawinskylaan 411 (WTC, Tower A, 4th floor) 1077 XX, Amsterdam P.O. Box 79141 1070 ND, Amsterdam The Netherlands
Principal Bankers	ING Bank Bijlmerplein 888 1102 MG Amsterdam The Netherlands
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 2011.

Business review

A review of the principal activities and business can be found in the Business Review section of this annual report as well as in the Chief Executive Officer's Statement to this annual report.

Financial results

The Financial Statements for the year ended 31 December 2011 are set out on pages 25 to 69.

Corporate Governance

LLP ShalkiyaZinc N.V. 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 whose 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>The elected board of directors and senior management effective 18 January 2011</u>

The Board of directors of the Company as appointed at the shareholders' meeting on 17 September 2010 had taken office effective 18 January 2011 and consisted 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	Executive member of the Board	17 September 2010	Kazakhstan
Oryngazy Jaboldinov	1979	Non-Executive member of the Board	17 September 2010	Kazakhstan
Daniyar Amanov	1979	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

At the end of 2011 the Board considered that in the current conditions when there's no production and investors' interest is vague there is no need for a complex board structure and suggests that the Board is formed consisting of the senior managers of SAT and ShalkiyaZinc N.V. In addition, the Board was of the view that with the re-appointment of the existing chairman as a non-`, it would maintain an element of continuity in board membership. The decreased size of the Board will match the current size of the Company's operations and secure the efficient decision making process until the Company returns to its previous size of operations. The following individuals have been elected as the new board members as ShalkiyaZinc N.V. management board members:

Directors	Year of birth	Position	Appointed to Management Board	Nationality
Kenges Rakishev	1979	Non-executive chairman	19 December 2011	Kazakhstan
Rollan Mussinov	1979	Non - Executive member of the Board	19 December 2011	Kazakhstan
Alken Kuanbay	1979	Executive member of the Board	19 December 2011	Kazakhstan

Information on the new Board of Directors

Mr. Kenges Rakishev, aged 32, is the Chairman of SAT since November 2008. Since August 2011 he is a non-executive director and Chairman of SAT & Co Netherlands N.V. and from September 2011 Mr. Kenges Rakishev is a director of SatFerro Limited. As of December 2010, Mr. Kenges Rakishev is a Chairman of several companies - Jinsheng SAT (Tianjin) Commercial and Trading Company Limited, Ulanhot Jinyuanda Heavy Chemical Industry Company Limited, Baicheng Jinsheng Nickel Industry Company Limited, Taonan City Jinsheng Metallurgical Products Company Limited. From October 2004 to present Mr. Rakishev serves as a Vice-President of the Union of Chambers of Commerce of the Republic of Kazakhstan. Mr. Rakishev holds B.A. (Law) from the Kazakh State Law Academy and B.A. (International Economics). Mr. Rakishev also has AMP Diploma from Oxford University. Mr. Rakishev is not independent as defined in the Dutch Code. Through SAT Mr. Rakishev holds the 84.28% of the issued share capital of the Company.

Mr. Mussinov, aged 32, is currently the First Deputy Chief Executive Officer of SAT, a position he has held since January 2009. Mr. Mussinov also has acted as chairman of the board of JSC KazFerroStal since June 2009, as chairman of the board of SAT & Co Holding Anonim Sirketi JSC, SAT & Co Madencilik Isletme Ticaret Holding Anonim Sirketi JSC, Sivas Madecilik Isletme Ticaret Holding Anonim Sirketi JSC, Denizli Madencilik Isletme Ticaret Anonim Sirketi JSC since April 2009, and as chairman of the board of Jinsheng SAT (Tianjin) Commercial and Trading Company Limited, Taonan City Jinsheng Metallurgical Products Company Limited, Ulanhot Jinyuanda Heavy Chemical Industry Company Limited and Baicheng Jinsheng Nickel Industry Company Limited, since October 2009. 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 John Hopkins University, Baltimore, Maryland. Mr. Mussinov does not hold any share capital in the Company, however is not independent as defined in the Dutch Code.

Mr. Alken Kuanbay, aged 32, is currently the acting General Director of LLP ShalkiyaZinc Ltd., has more than 10 years of experience in accounting, auditing and corporate finance. Prior to his appointment as Chief Financial Officer of LLP ShalkiyaZinc Ltd. he served in KazGranit Corporation LLP as a Chief Financial Officer and Exillon Energy Plc. as a Finance Director. He was for 5 years with Big 4 including 4 years with Deloitte and 1 year with Ernst &Young. Mr. Alken Kuanbay holds B.A. from Kazakh State Academy of Management.

Following the AGM resolutions the Management Board consists of a majority of non-executive members. In deviation of Best Practice Provision III.2.1, more than one of the non-executive members is not independent within the meaning of the Dutch Code. Under the Dutch Code, Kenges Rakishev and Rollan Mussinov will not qualify as independent directors. The Board has every confidence that new Board of Directors will make a significant contribution to the Company's Board and the ongoing success of the Company. Accordingly, the Board recommends that shareholders vote in favour of each of these resolutions.

Board Committees

The Board of Directors has established that an Audit Committee, Remuneration and Nomination Committees, and an Executive Committee will be managed by all the three members of the Board.

The Board's duties include a review of the Company's Annual Report and semi-annual 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.

Audit Committee

Its duties include a review of ShalkiyaZinc Annual Report, 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.

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 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 was disclosed in Note 27 of the consolidated financial statements.

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.

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 minimise the impact of risks that can be controlled by the Company. LLP ShalkiyaZinc Ltd 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 LLP ShalkiyaZinc Ltd may impact Company'ss ability to implement its business plan and may have a material adverse effect on the business, financial condition or results of operations of the Company. Please see the section attached to this report entitled "Risks, Uncertainties and Internal Control" 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 recognised 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 ("Annual General Meeting" or "AGM") of shareholders on 18 June 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 one of the Board meetings and approved at the next Annual Meeting.

Number II.2.12, II.2.14 - Former management board has not received any remuneration for 2011 and previous years as well. The remuneration of Alken Kuanbay, Marat Sarkytbayev and Ramilya Azelgereeva disclosed in Note 27 is the amount of salary that they have received, as they are employees of the Company, Alken Kuanbay is the CEO, Ramilya Azelgereeva is the Head of Finance and Economic department, Marat Sarkytbayev acted as CEO until July 2011. Board was not 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.1.8 – II.1.11, 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.5.2, III.5.3, III.6.1 – III.6.7, III.7.1 – III.7.3, V.1.1, V.2.2, V.2.3, V.3.3 and V.4.1. The Company cannot apply these best practice rules as it has a one-tier board.

Following the AGM resolutions the Management Board consists of a majority of non-executive members. In deviation of Best Practice Provision III.2.1, more than one of the non-executive members is not independent within the meaning of the Dutch Code. Under the Dutch Code, Kenges Rakishev and Rollan Mussinov will not qualify as independent directors. The Board has every confidence that new Board of Directors will make a significant contribution to the Company's Board and the ongoing success of the Company. Accordingly, the Board recommends that shareholders vote in favour of each of these resolutions.

Number V.1.3. - The management board established and maintains internal procedures that have proved to be satisfactory given the current size of the Company's operations.

The Company was not able to assure the timeliness of the external financial reporting.

Number II.1.2d – The Company does not meet the Corporate social responsibility requirements in full. Reference is made to Note 26 on page 60.

Number II.2.1– The Company currently is updating its 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 next Annual General Meeting.

Number III.5.1– The Board has the Terms of Reference for Committees but they haven't been publicised 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 significant number of transactions, the Company temporarily does not need the internal audit function but it monitors its risks and plans to adopt a risk management policy at the next Annual General Meeting.

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 its policy on bilateral contacts with shareholders at the next Annual General meeting.

The Board of Directors
25 June, 2012

OTHER STATUTORY INFORMATION

Principal activities

The Group's main activities are exploration, extraction and processing of complex lead-zinc ore in the Shalkiya Mine, 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 to the consolidated financial statements on page 29.

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 13 August 2012 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 authorised share capital of ShalkiyaZinc N.V. is EUR 1,500,000 divided into 150,000,000 shares each with a nominal value of EUR 0.01 per share. The issued share capital of ShalkiyaZinc N.V. is EUR 303,658 divided into 30,365,679 shares each with a nominal value of EUR 0.01 per share, equivalent to USD 406,871 at an exchange rate of USD 1.3399.

All shares are registered shares. No certificates were issued. The shares are not classified, as the shares 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 30 on page 63.

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 authorised, 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, 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 LLP ShalkiyaZinc Ltd.

Upon the closure of the Mandatory Offer in April 2011 SAT had 25,591,327 of the Company's shares, representing, in aggregate, approximately 84.3%. of the issued share capital of the Company. In January 2012, SAT completed the acquisition of an aggregate number of 4,206,664 shares of the Company from Zinc Investments I B.V., Zinc Investments II B.V. and Zinc Investments III B.V. SAT now owns approximately 98.56% of the entire issued share capital of the Company. Minority shareholders exercised their voting rights via proxy at 19 December 2011 AGM.

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.

Following the AGM resolutions the Management Board consists of a majority of non-executive members. In deviation of Best Practice Provision III.2.1, more than one of the non-executive members is not independent within the meaning of the Dutch Code. Under the Dutch Code, Kenges Rakishev and Rollan Mussinov will not qualify as independent directors. The Board has every confidence that new Board of Directors will make a significant contribution to the Company's Board and the ongoing success of the Company. Accordingly, the Board recommends that shareholders vote in favour of each of these resolutions.

Directors

The Directors of the Company who served during 2011 were indicated on pages 14 and 15.

The Board of directors of the Company 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 Board took office effective the date of completion of Transaction, that is 17 January 2011. On 19 December 2011 a new Board was elected by AGM of the Company. For the list of new board of management, please refer to page 15.

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 the Company 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 recognised losses were reversed in the consolidated statement of comprehensive income.

The Group had no ownership-based compensation scheme in 2011 and 2010.

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 receives 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 states that 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 art. 2:120 part 3 DCC 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 authorised 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 USD 4.75 at any time until 10 August 2011, on the occurrence of certain events in relation to the provision of a USD 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 USD 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 enable the auditors to become aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

During the year the Board of Directors has appointed PricewaterhouseCoopers Accountants N.V as a Group's auditors.

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 2011 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 2011, 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 2011 gives a true and fair view of the state of affairs on 31 December 2011, the course of business during the financial year ended 31 December 2011 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:

Kenges Rakishev, non-executive chairman

Alken Kuanbay, executive member

Rollan Mussinov, non-executive member

25 June 2012

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 2011 of ShalkiyaZinc N.V., Rotterdam as set out on pages 25 to 69. 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 2011, 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 2011, 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 directors' 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 judgement, 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 of directors, as well as evaluating the overall presentation of the financial statements.

PricewaterhouseCoopers Accountants N.V., Fascinatio Boulevard 350, 3065 WB Rotterdam, P.O. Box 8800, 3009 AV Rotterdam, The Netherlands
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ShalkiyaZinc N.V. as at 31 December 2011, 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 2011, 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 financial statements which indicates that 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 the ability to obtain financing to fund its operating costs. 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 directors' 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 directors' 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, 25 June 2012
PricewaterhouseCoopers Accountants N.V.

N.W. Over de Vest RA

ShalkiyaZinc N.V.
Consolidated Statement of Comprehensive Income

In thousands of USD

	Notes	2011	2010 (Restated)
Revenue		–	–
Cost of sales		–	–
Gross profit		**–**	**–**
General and administrative expenses	6	(4,015)	(8,845)
Impairment of property, plant and equipment and exploration and evaluation assets		–	(1,426)
Foreign exchange losses less gains/(gains less losses)		(54)	300
Other operating income	10	1,477	1,509
Other operating expenses	10	(716)	(1,378)
Operating loss		**(3,308)**	**(9,840)**
Finance income	11	8,018	293
Finance costs	11	(2,000)	(4,895)
Profit/(loss) before income tax		**2,710**	**(14,442)**
Income tax benefit	12	69	675
PROFIT/(LOSS) FOR THE YEAR		**2,779**	**(13,767)**
Other comprehensive income/(loss):			
Exchange differences on translation to presentation currency		(155)	591
Other comprehensive income/(loss) for the year		**(155)**	**591**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**2,624**	**(13,176)**
Profit/(loss) attributable to owners of the Company		2,779	(13,767)
Profit/(loss) attributable to non-controlling interest		–	–
Income/(loss) for the year		**2,779**	**(13,767)**
Total comprehensive income/(loss) attributable to owners of the Company		2,624	(13,176)
Total comprehensive income/(loss) attributable to non-controlling interest		–	–
Total comprehensive income/(loss) for the year		**2,624**	**(13,176)**
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share, US cents	20	9.53	(243.66)

The notes on pages 29 to 63 form an integral part of these consolidated financial statements

ShalkiyaZinc N.V.
Consolidated Statement of Financial Position

In thousands of USD

	Notes	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	13	23,335	25,292	27,349
VAT receivable	15	2,351	2,367	1,427
Prepayments	16	6,252	3,357	3,348
Inventories	17	764	1,255	1,247
Deferred tax asset	12	1,535	1,459	808
		34,237	**33,730**	**34,179**
Current assets				
Advances given to SAT	27	7,122	–	–
VAT receivable	15	30	257	2,022
Inventories	17	385	532	2,058
Other receivables	18	193	91	334
Prepayments	16	62	58	397
Cash and cash equivalents	19	113	300	57
		7,905	**1,238**	**4,868**
TOTAL ASSETS		**42,142**	**34,968**	**39,047**
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent	20			
Share capital		407	83	83
Share premium		111,840	62,164	62,164
Foreign currency translation reserve		1,205	1,360	769
Accumulated deficit		(78,271)	(81,050)	(67,283)
		35,181	**(17,443)**	**(4,267)**
Non-current liabilities				
Provision for future site restoration	22	778	1,115	973
Due to the Republic of Kazakhstan	23	1,557	1,440	1,372
		2,335	**2,555**	**2,345**
Current liabilities				
Bank borrowings	21	–	34,790	31,088
Trade and other payables	24	3,657	11,976	8,774
Due to SAT		53	2,205	–
Income tax payable		117	100	58
Tax payable other than income tax		130	69	394
Advances received		669	716	655
		4,626	**49,856**	**40,969**
TOTAL EQUITY AND LIABILITIES		**42,142**	**34,968**	**39,047**

The notes on pages 29 to 63 form an integral part of these consolidated financial statements

ShalkiyaZinc N.V.
Consolidated Statement of Cash Flows

In thousands of USD

	Notes	2011	2010 (restated)
Cash flows from operating activities			
Profit/(loss) before income tax		2,710	(14,442)
Adjustments for:			
Depreciation of property, plant and equipment	9	1,344	1,449
Losses less gains on disposal of property, plant and equipment		49	241
Impairment of property, plant and equipment and exploration and evaluation assets		–	1,426
Write down to net realisable value and provision for obsolete inventory	6	489	1,033
Impairment of other receivables and prepayments	6	–	43
Unrealised foreign exchange (loss)/gain		106	(158)
Write-off of other payables	10	(262)	–
Interest income on bank deposits	11	(24)	(135)
Interest expense on bank borrowings	11	1,634	3,654
Gain on restructuring	11	(7,994)	–
Unwinding of discount on provision for future site restoration	11	89	78
Unwinding of discount on due to the Republic of Kazakhstan	11	168	151
Translation adjustment		470	596
Operating cash flow before working capital changes		**(1,221)**	**(6,064)**
Change in prepayments and other receivables		(108)	587
Change in inventories		145	507
Change in VAT receivable		228	848
Change in trade and other payables		(2,134)	3,402
Change in Due to the Republic of Kazakhstan	23	(92)	(256)
Change in taxes payable		19	(229)
Cash used in operating activities		**(3,163)**	**(1,205)**
Interest received		24	135
Net cash used in operating activities		**(3,139)**	**(1,070)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(8)	(905)
Change in prepayments for non-current assets		(58)	13
Net cash used in investing activities		**(66)**	**(892)**
Cash flows from financing activities			
Issue of ordinary shares	1	50,000	–
Advance payment to SAT under the cooperation agreement	2	(50,000)	–
Proceeds from borrowings from SAT	27	3,018	2,205
Net cash from financing activities		**3,018**	**2,205**
Net (decrease)/increase in cash and cash equivalents		**(187)**	**243**
Cash and cash equivalents at the beginning of the year		300	57
Cash and cash equivalents at the end of the year	19	**113**	**300**

Investing and financing transactions that did not require the use of cash and cash equivalents were excluded from the consolidated statement of cash flows and are disclosed in Note 28.

The notes on pages 29 to 63 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	Foreign currency translation reserve	Accumulated deficit	Total
At 1 January 2010 (as reported)	83	62,164	769	(66,968)	(3,952)
Restatements *(Note 2)*	–	–	–	(315)	(315)
At 1 January 2010 (restated)	83	62,164	769	(67,283)	(4,267)
Loss for the year (as reported)	–	–	–	(13,973)	(13,973)
Restatements *(Note 2)*	–	–	–	206	206
Loss for the year (restated)	–	–	–	(13,767)	(13,767)
Other comprehensive loss (as reported)	–	–	(733)	–	(733)
Restatements *(Note 2)*	–	–	1,324	–	1,324
Other comprehensive income (restated)	–	–	591	–	591
Balance at 31 December 2010 (restated)	**83**	**62,164**	**1,360**	**(81,050)**	**(17,443)**
Issuance of shares	324	49,676	–	–	50,000
Profit for the year	–	–	–	2,779	2,779
Other comprehensive loss	–	–	(155)	–	(155)
Balance at 31 December 2011	**407**	**111,840**	**1,205**	**(78,271)**	**35,181**

The notes on pages 29 to 63 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).

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 LLP ShalkiyaZinc Ltd. SAT obtained control over the Group on 27 December 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 ShalkiyaZinc N.V. in return for a capital investment of USD 50 million into LLP 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 84.28% interest in the Company. The ultimate beneficial shareholders of the Company as at 31 December 2011 were 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%
Free float in the form of GDRs	567,778	1.87%

During 2012 SAT acquired the shares of former management and other significant shareholders (Note 30).

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 and construction of the new ore processing plant. As of the date of authorisation 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 25 June 2012 by the Company's Board of Directors. The Consolidated Financial Statements are subject to adoption by the Annual General Meeting of Shareholders on 13 August 2012.

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 company financial information of ShalkiyaZinc N.V. is included in the Consolidated Financial Statements, the Company Income statement is presented in abbreviated format in accordance with art. 2: 402 Dutch Civil Code ("DCC").

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 2010-2011, 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 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 realisation 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 an operating loss of USD 3,308 thousand and USD 9,840 thousand for the years ended 31 December 2011 and 2010, respectively. At 31 December 2011, the Group's accumulated deficit amounted to USD 78,271 thousand (2010: USD 81,050 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 ability to continue as a going concern is dependent on the ability to raise financing to complete construction of the new processing plant and to fund its operating costs (mainly general and administrative expenses).

2. BASIS FOR PREPARATION (continued)

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 2011, the Group's capital expenditure related to the construction of the new processing plant amounted to USD 26,090 thousand, including USD 6,252 thousand in prepayments. Per management's assessment the Group would need an additional USD 182 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 60% at USD 2,645 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.

Also, additional financing is required to fund its operating costs (mainly general and administrative expenses.

The matters disclosed above indicate the existence of a material uncertainty in obtaining sufficient financing 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.

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.

On 30 June 2011, the Group completed restructuring of its borrowings from BTA Bank (Note 21). Under the restructuring arrangements interest rate on BTA Bank borrowings was retrospectively reduced from 16% to 7.5% per annum. As a result, the carrying amount of BTA Bank borrowings decreased by USD 5,694 thousand. Following the restructuring the Group has also written-off accrued servicing fee on a BTA Bank letter of credit in the amount of USD 2,300 thousand.

In January 2011, the Group entered in the cooperation agreement with SAT pursuant to which the Group transferred received capital contribution to SAT as a prepayment for facilitation by the latter of the restructuring of Group's obligations. In 2011, under the cooperation agreement:

- SAT accepted the Group's accounts payable to Atlas Copco Customer Finance AB in the amount of USD 3.6 million;
- SAT accepted the Group's outstanding debt to BTA Bank in the amount of USD 31 million;
- the Group's debt to SAT of USD 5.1 million was offset against the prepayment;
- Up-front prepayment of USD 2.9 million to Midiel AB (Note 16) made by SAT in 2011 was transferred to the Group and offset against the prepayment.

These measures have positively affected the net current liability position of the Group.

The Group obtained a support letter from SAT which confirms the parent company's intention to support the Group for at least 12 months after the signing date of the financial statements.

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

2. BASIS FOR PREPARATION (continued)

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 recognisable currency in the international markets.

Restatement of comparative information

In course of preparation of the consolidated financial statements for the year ended 31 December 2011, the Group identified prior period errors. These errors were corrected by restating the comparative information for the following:

(a) Provision for future site restoration

In the consolidated financial statements prepared in accordance with IFRS for the year 2010, the Group has incorrectly recognised site restoration provisions for areas where environmental disturbance has not yet occurred as of 1 January 2010 and 31 December 2010. Comparative information has been restated and adjusted. Presented below are the results of the restatement at 31 December 2010 and 1 January 2010 and its effect on profit for 2010. There is no effect in 2011.

In thousands of USD	**1 January 2010**	**31 December 2010**
Decrease in property, plant and equipment	(3,453)	(3,711)
Decrease in deferred tax asset	(785)	(900)
Decrease in provision for future site restoration	3,923	4,500
Impact on equity	**(315)**	**(111)**

In thousands of USD	**2010**
Decrease in finance costs	316
Decrease in income tax benefit	(110)
Impact on profit and loss	**206**

(b) Trade and other payables

In 2010, the Group has erroneously recorded trade payables and currency translation difference within other comprehensive loss in the amount of USD 1,326 thousand. The Group therefore reversed trade payables and other comprehensive loss. Comparative information has been restated and adjusted. Presented below are the results of the restatement at 31 December 2010 with no effect at 1 January 2010 and on the results for 2010. There is no effect in 2011.

In thousands of USD	**31 December 2010**
Decrease in trade and other payables	1,326
Impact on equity	**1,326**

2. BASIS FOR PREPARATION (continued)

Effect of restatement on the individual items of the statement of financial position as at 1 January 2010 and 31 December 2010:

	1 January 2010		31 December 2010	
In thousands of USD	**As reported**	**Restated**	**As reported**	**Restated**
Property, plant and equipment	30,802	27,349	29,003	25,292
Long-term portion of VAT receivable	1,427	1,427	2,367	2,367
Prepayments for non-current assets	3,348	3,348	3,357	3,357
Long-term inventories	1,247	1,247	1,255	1,255
Deferred tax asset	1,593	808	2,359	1,459
VAT receivable	2,022	2,022	257	257
Inventories	2,058	2,058	532	532
Other receivables	334	334	91	91
Prepayments	397	397	58	58
Cash and cash equivalents	57	57	300	300
Share capital	83	83	83	83
Share premium	62,164	62,164	62,164	62,164
Cumulative currency translation reserve	769	769	36	1,360
Accumulated deficit	(66,968)	(67,283)	(80,941)	(81,050)
Provision for future site restoration	4,896	973	5,615	1,115
Due to the Republic of Kazakhstan	1,372	1,372	1,440	1,440
Short-term bank borrowings	31,088	31,088	34,790	34,790
Trade and other payables	8,774	8,774	13,302	11,976
Due to SAT	–	–	2,205	2,205
Income tax payable	58	58	100	100
Tax payable other than income tax	394	394	69	69
Advances received	655	655	716	716

Effects of restatements on the individual profit and loss items for 2010:

In thousands of USD	**As reported**	**Restated**
Revenue	–	–
Cost of sales	–	–
General and administrative expenses	(8,845)	(8,845)
Impairment of property, plant and equipment and exploration and evaluation assets	(1,426)	(1,426)
Foreign exchange losses less gains/(gains less losses)	300	300
Other operating income	1,509	1,509
Other operating expenses	(1,378)	(1,378)
Finance income	293	293
Finance costs	(5,211)	(4,895)
Income tax benefit	785	675
Loss for the year	**(13,973)**	**(13,767)**
Basic and diluted loss per share, US cents	(247.31)	(243.66)

The revised IAS 1, Presentation of Financial Statements, 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 retrospective restatement.

2. BASIS FOR PREPARATION (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.

3. NEW ACCOUNTING PRONOUNCEMENTS

(a) Standards, amendments and interpretations effective in 2011:

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.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (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).

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).

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 by the Group:

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 and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. 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.
- 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.

3. NEW ACCOUNTING PRONOUNCEMENTS (continued)

While adoption of IFRS 9 is mandatory from 1 January 2015, 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.

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

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012).

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).

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

IFRIC 20, Stripping costs in the production phase of a surface mine (effective for accounting periods beginning on or after 1 January 2013, subject to endorsement by the EU).

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013).

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).

The Group is considering the implications of the new standards, the impact on the Group and the timing of its adoption by the Group. Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated 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 2011 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 148.40 (2010: USD 1 = Tenge 147.40). The principal average rate of exchange used for translating income and expenses was USD 1 = Tenge 146.62 (2010: USD 1 = Tenge 147.34).

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Capitalised 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 capitalisation are charged to the profit and loss as incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised 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 capitalised 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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 capitalised 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, capitalised 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.

Financial instruments – key measurement terms

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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 recognised amounts and the Group intends to either settle on a net basis, or to realise 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.

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 recognised in the profit and loss as an expense 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 expenses in the 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 amortised 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 realisable 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 realisable value is the estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale.

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

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

Provisions

Site restoration provisions

Site restoration provisions are made in respect of the estimated future costs of mine closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is expensed as incurred and recognised in profit and loss for the year as a finance cost. A corresponding amount equivalent to the provision is also recognised 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised 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 recognised 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 recognised 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 authorised 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. Upon retirement of employees, the financial obligations of the Group cease and all subsequent payments to retired employees are administered by the state and private cumulative pension funds.

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.

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

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 2011 was nil (2010: USD 50 thousand). As at 31 December 2011 the carrying amount of mining assets was USD 1,030 thousand (2010: USD 1,459 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 judgement 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.

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 of the Kazakhstani legislation, 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.

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

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 judgement 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 2011 the Group has tax loss carry forwards amounting to USD 41,829 thousand (2010: USD 44,722 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 2011 the Group has not recognised 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. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of USD	**2011**	**2010**
Depreciation *(Note 9)*	1,344	1,449
Payroll and related taxes *(Note 7)*	895	1,193
Consulting services	550	2,549
Write down to net realisable value	369	1,033
Provision for obsolete inventory *(Note 17)*	120	-
Maintenance costs	277	298
Provision for unused vacation	63	–
Fines and penalties	49	1,502
Rent	40	74
Communication	15	18
Materials	14	25
Bank charges	14	8
Provision for doubtful accounts	–	43
VAT impairment	–	82
Other	265	571
	4,015	**8,845**

7. PAYROLL AND RELATED TAXES

In thousands of USD	**2011**	**2010**
Salaries and wages	823	1,077
Payroll taxes	72	116
	895	**1,193**

8. AVERAGE NUMBER OF EMPLOYEES

	2011	**2010**
Directors	1	1
Kentau Processing Plant	30	31
Shalkiya mine	69	82
Administrative personnel	14	16
	114	**130**

9. DEPRECIATION

In thousands of USD	**2011**	**2010**
Mine development costs	–	50
Buildings and constructions	180	144
Machinery and production equipment	1,087	1,167
Vehicles	46	51
Other	31	37
	1,344	**1,449**

10. OTHER OPERATING INCOME AND EXPENSES

In thousands of USD	2011	2010
Other operating income		
Railway services	1,072	1,274
Write-off of other payables	262	–
Other	143	235
	1,477	**1,509**
Other operating expenses		
Materials	319	344
Rent of railway transport	151	312
Security	106	22
Losses on disposal of property, plant and equipment	49	–
Other	91	700
	716	**1,378**

11. FINANCE INCOME AND COSTS

In thousands of USD	2011	2010 (restated)
Finance income		
Gain on restructuring	7,994	–
Interest income on bank deposits	24	135
Foreign exchange gains less losses on bank borrowings	–	158
	8,018	**293**
Finance costs		
Interest expense on bank borrowings (*Note 21*)	1,634	3,654
Commission on letter of credit	–	1,012
Unwinding of discount on due to the Republic of Kazakhstan (*Note 23*)	168	151
Foreign exchange losses less gains on bank borrowings *(Note 21)*	106	–
Unwinding of discount on provision for future site restoration (*Note 22*)	89	78
Other	3	–
	2,000	**4,895**

Gain on restructuring relates to retrospective reduction of the interest rate on BTA Bank borrowing from 16% to 7.5% per annum of USD 5,694 thousand (Note 21) and cancellation of the servicing fee on the BTA Bank letter of credit for the period 2008-2010 in the amount of USD 2,300 thousand (Note 24).

12. INCOME TAX

(a) Components of income tax benefit

Income tax benefit recorded in profit or loss comprises the following:

In thousands of USD	**2011**	**2010 (restated)**
Current tax	(17)	–
Deferred tax	86	675
	69	**675**

(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	**2011**	**2010 (restated)**
Profit/(loss) before income tax	**2,710**	**(14,442)**
Theoretical tax expense/(benefit) at statutory rate of 20%:	542	(2,888)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Fines and penalties	37	122
Other non-deductible expenses	179	328
Effect of change in tax rate	–	(407)
Change in estimate of site restoration provision and due to the Republic of Kazakhstan	85	(12)
Other permanent differences	(91)	–
Change in unrecognised deferred tax asset positions	(210)	-
Movement in unrecognised deferred tax assets on tax loss carryforwards	(611)	2,182
Income tax expense/(benefit) for the year	**(69)**	**(675)**

12. INCOME TAX (continued)

(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% (2010: 20%).

In thousands of USD	**1 January 2010 (restated)**	**Recorded to profit or loss**	**Currency translation difference**	**31 December 2010 (restated)**
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	321	188	2	511
Bank borrowings	(191)	192	(1)	–
Net deferred tax asset	**808**	**675**	**(24)**	**1,459**
Recognised deferred tax asset	999	483	(23)	1,459
Recognised deferred tax liability	(191)	192	(1)	–
Net deferred tax asset	**808**	**675**	**(24)**	**1,459**

In thousands of USD	**1 January 2011**	**Recorded to profit or loss**	**Currency translation difference**	**31 December 2011**
Tax effect of deductible temporary differences				
Property, plant and equipment	562	44	(4)	602
Inventories	363	93	(4)	452
Trade and other receivables	23	(1)	–	22
Provision for future site restoration and Due to the Republic of Kazakhstan	511	(50)	(2)	459
Net deferred tax asset	**1,459**	**86**	**(10)**	**1,535**
Recognised deferred tax asset	1,459	86	(10)	1,535
Net deferred tax asset	**1,459**	**86**	**(10)**	**1,535**

At 31 December 2011, deferred tax assets of USD 1,535 thousand (2010: USD 1,459 thousand) are classified within non-current assets as the Group does not expect settlement of these assets within 12 months subsequent to the reporting date.

Due to the uncertainty regarding availability of future taxable profits against which tax losses carried forward could be utilised during the period prescribed by the tax legislation the deferred tax assets on the tax losses carried forward were not recognised.

12. INCOME TAX (continued)

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 2011 and 2010.

13. PROPERTY, PLANT AND EQUIPMENT

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

In thousands of USD	Land	Mine develop-ment costs	Buildings and construc-tion	Machinery and produc-tion equip-ment	Vehicles	Other	Construc-tion in progress	Total
Cost								
At 1 January 2010 (restated)	39	2,175	3,847	24,583	455	637	20,628	52,364
Additions	–	58	–	3	–	–	819	880
Disposals	–	–	(1)	(347)	(142)	(8)	(45)	(543)
Translation difference	–	15	25	160	3	4	134	341
At 31 December 2010 (restated)	39	2,248	3,871	24,399	316	633	21,536	53,042
Additions	–	–	–	–	2	6	–	8
Transfers	–	–	11	–	6	–	(17)	–
Disposals	–	(423)	–	(276)	(62)	(34)	(10)	(805)
Translation difference	–	(11)	(26)	(161)	(1)	(4)	(145)	(348)
At 31 December 2011	**39**	**1,814**	**3,856**	**23,962**	**261**	**601**	**21,364**	**51,897**
Accumulated depreciation and impairment								
At 1 January 2010 (restated)	–	(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 (restated)	–	(789)	(3,192)	(21,296)	(230)	(428)	(1,815)	(27,750)
Depreciation charge	–	–	(180)	(1,087)	(46)	(31)	–	(1,344)
Disposals	–	–	–	247	59	27	–	333
Translation difference	–	5	24	154	1	3	12	199
At 31 December 2011	**–**	**(784)**	**(3,348)**	**(21,982)**	**(216)**	**(429)**	**(1,803)**	**(28,562)**
Net book value								
At 1 January 2010 (restated)	39	1,441	957	4,788	200	274	19,650	27,349
At 31 December 2010 (restated)	39	1,459	679	3,103	86	205	19,721	25,292
At 31 December 2011	**39**	**1,030**	**508**	**1,980**	**45**	**172**	**19,561**	**23,335**

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Mine development costs represent capitalised estimated future costs of mine closure, restoration and environmental rehabilitation. Disposal from mine development costs in 2011 of USD 423 thousand represent the decrease in provision for future site restoration due to the change in estimate of site restoration costs (2010: increase of USD 58 thousand) (Note 22).

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 the construction in progress included the following:

In thousands of USD	**2011**	**2010 (restated)**
Tower-type drop hammer	6,649	6,697
Mine winders	6,354	6,397
Capitalised costs on increase of capacity	5,194	5,229
Capital repair of canteen building	825	831
Headframe workshop unit	795	800
Flotation equipment	406	409
Loading bridge	348	350
Other	793	823
Less: impairment provision	(1,803)	(1,815)
	19,561	**19,721**

14. IMPAIRMENT

The Shalkiya CGU

In 2010, management performed impairment test for its property, plant and equipment related to the Shalkiya mine and new processing plant (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. Fair value of property, plant and equipment of the Shalkiya CGU at 31 December 2010 comprised USD 155,961 thousand.

Fair value assessment at 31 December 2010 was completed in 2011 taking into account revision in future cash flows due to revisions of assumptions existing at 31 December 2010 including forecasts of global prices on zinc and lead, and expected time of recommencement of operations of LLP ShalkiyaZinc Ltd in 2015. At 31 December 2011, management assessed the following key assumptions applied in projected future cash flows for the purpose of the valuation: zinc and lead prices forecasts, estimated capital expenditures on construction of the new processing plant and expected time of recommencement of operations. As of the date of these consolidated financial statements, zinc and lead prices for 2015 projected based on median prices from publicly available broker forecasts increased by 18% as compared to price projections as of 31 December 2010. There were no changes in the estimated capital expenditures on construction of the new processing plant and expected time of recommencement of operations during 2011. As a result of the assessment management concluded that there were no facts which would indicate deterioration of these assumptions and result in decrease of the recoverable amount of property, plant and equipment, and, accordingly, concluded that there were no indications of impairment of assets of the Shalkiya CGU.

The Kentau Processing Plant and the Talap exploration and evaluation assets

At 31 December 2008, the Group fully impaired property, plant and equipment of the Kentau Processing Plant and exploration and evaluation assets related 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.

15. VAT RECEIVABLE

At 31 December 2011, VAT receivable amounted to USD 2,381 thousand (2010: USD 2,624 thousand). At 31 December 2011, VAT receivable of USD 2,351 thousand (2010: USD 2,367 thousand) is classified within non-current assets as the Group does not expect reimbursement of this VAT receivable within 12 months subsequent to the reporting date.

16. PREPAYMENTS

In thousands of USD	31 December 2011	31 December 2010
Prepayments for equipment and machinery	6,252	3,357
Prepayments for consumables and services	182	179
Less: allowance for impairment	(120)	(121)
	6,314	**3,415**
Classified as:		
Non-current	6,252	3,357
Current	62	58
	6,314	**3,415**

Prepayments as at 31 December 2011 include up-front prepayment of USD 2,895 thousand made to Midiel AB in 2011 and 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. Management believes 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	2011	2010
Allowance at the beginning of the year	121	303
Charge for the year	–	43
Write offs	–	(227)
Translation difference	(1)	2
Allowance at the end of the year	**120**	**121**

17. INVENTORIES

In thousands of USD	31 December 2011	31 December 2010
Stores and materials	2,347	2,574
Finished products	-	36
Work in progress	-	275
Less: provision for obsolescence	(1,198)	(1,098)
	1,149	**1,787**

17. INVENTORIES (continued)

In thousands of USD	31 December 2011	31 December 2010
Classified as:		
Non-current	764	1,255
Current	385	532
	1,149	**1,787**

As at 31 December 2011 finished goods and work-in-progress were written down to nil as the estimated selling price does not cover cost of production (including estimated cost to complete) and selling expenses. 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	2011	2010
Provision at the beginning of the year	1,098	1,223
Charge for the year *(Note 6)*	120	–
Write offs	–	(133)
Translation difference	(20)	8
Provision at the end of the year	**1,198**	**1,098**

18. OTHER RECEIVABLES

In thousands of USD	31 December 2011	31 December 2010
Other financial receivables	306	204
Less: allowance for doubtful debts	(113)	(113)
	193	**91**

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

In thousands of USD	2011	2010
Allowance at the beginning of the year	113	113
Recovered	–	–
Translation difference	–	–
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
2011	193	122	36	1	8	20	6
2010	91	17	–	8	6	60	–

At 31 December 2011 and 2010, the Group's other receivables were denominated in Tenge.

19. CASH AND CASH EQUIVALENTS

In thousands of USD	31 December 2011	31 December 2010
Cash in banks, KZT denominated	50	263
Cash in banks, EUR denominated	25	7
Cash in banks, USD denominated	24	5
Cash on hand, USD denominated	13	–
Cash on hand, KZT denominated	1	25
	113	**300**

20. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

In thousands of USD	Number of outstanding shares	Share capital	Share premium
At 1 January 2010	**5,650,000**	**83**	**62,164**
New shares issued	–	–	–
At 31 December 2010	**5,650,000**	**83**	**62,164**
New shares issued	24,715,769	324	49,676
At 31 December 2011	**30,365,769**	**407**	**111,840**

During 2011 SAT has purchased the 25,591,327 ordinary shares of ShalkiyaZinc N.V.

The authorised share capital of ShalkiyaZinc N.V. is EUR 1,500,000 divided into 150,000,000 shares each with a nominal value of EUR 0.01 per share. The issued share capital of ShalkiyaZinc N.V. is EUR 303,658 divided into 30,365,679 shares each with a nominal value of EUR 0.01 per share, equivalent to USD 406,871 at an exchange rate of USD 1.3399.

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.

Earnings/(loss) per share

The numerator for the calculation of the basic earnings/(loss) per share for the year ended 31 December 2011 is the profit after tax of USD 2,779 thousand (2010: loss of USD 13,767 thousand) and the denominator for the calculation of the basic earnings/(loss) per share is 29,146,909 shares (2010: 5,650,000 shares).

	For the year ended	
	31 December 2011	31 December 2010 (restated)
Basic earnings/(loss) per share, *in US cents*	9.53	(243.66)
Diluted earnings /(loss) per share, *in US cents*	9.53	(243.66)
Profit/(loss) attributable to ordinary shareholders, in thousands of USD	2,779	(13,767)
Weighted average number of outstanding shares	29,146,909	5,650,000

21. BANK BORROWINGS

In thousands of USD	2011	2010
Opening balance	34,790	31,088
Interest expense for the period *(Note 11)*	1,634	3,654
Transfer of the debt to SAT	(30,988)	–
Gain on restructuring *(Note 11)*	(5,694)	–
Foreign exchange difference *(Note 11)*	106	(158)
Translation difference	152	206
	–	**34,790**

The bank borrowings were due to BTA Bank. In 2011, the Group has completed the restructuring of its bank borrowings from BTA Bank. As a result of restructuring the Group was granted with favourable terms. In particular, interest rate was retrospectively decreased from 16% to 7.5% per annum. Following debt restructuring referred to above, the Group has consequently transferred its debt to BTA Bank in full to SAT under the cooperation agreement (Note 2).

As of 31 December 2011, property, plant and equipment with a net carrying value of USD 10,180 thousand are still pledged to BTA Bank.

The bank borrowings comprised the following at 31 December:

In thousands of USD	31 December 2011	31 December 2010
Fixed interest rate bank borrowings	–	34,022
Weighted average interest rate	–	16.00%
Variable interest rate bank borrowings	–	768
Weighted average interest rate	–	11.55%

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

In thousands of USD	31 December 2011	31 December 2010
US Dollar	–	14,179
Tenge	–	19,833
Roubles	–	778
	–	**34,790**

22. PROVISION FOR FUTURE SITE RESTORATION

In thousands of USD	2011	2010 (restated)
At 1 January	1,115	973
Change in estimate	(423)	58
Unwinding of discount *(Note 11)*	89	78
Translation difference	(3)	6
At 31 December	**778**	**1,115**

22. PROVISION FOR FUTURE SITE RESTORATION (continued)

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.

Change in estimate of USD 423 thousand (2010: USD 58 thousand) represent change in future site restoration and abandonment cost due to revision of expected long-term inflation rate.

The following are the key assumptions on which the discounted carrying amount of the obligation is based in 2011:

- The total undiscounted amount of estimated future cash expenditure to be incurred is Tenge 340,000 thousand (USD 2,291 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 4.5% per annum (2010: 5.7%);
- The discount rate applied is 7.87% per annum (2010: 8.00%).

23. DUE TO THE REPUBLIC OF KAZAKHSTAN

In thousands of USD	**2011**	**2010**
At 1 January	1,481	1,628
Change in estimate	–	(83)
Repayment during the year	(92)	(256)
Unwinding of discount *(Note 11)*	168	151
Foreign exchange differences	–	41
	1,557	**1,481**
Classified as:		
Non-current	1,557	1,440
Current	–	41
At 31 December	**1,557**	**1,481**

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 2015 and ending on 31 December 2024.
- The discount rate applied is 12% per annum.

24. TRADE AND OTHER PAYABLES

In thousands of USD	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Trade payables for purchased property, plant and equipment	219	4,045	4,601
Trade payables for services	2,096	3,624	125
Other	–	41	256
Total financial payables	*2,315*	*7,710*	*4,982*
Accrued expenses	1,107	4,016	3,003
Payables to employees	227	244	117
Other	8	6	672
	3,657	**11,976**	**8,774**

Trade payables for purchased property, plant and equipment as of 31 December 2010 included payables to Atlas Copco Customer Finance AB in the amount of USD 3,642 thousand transferred to SAT under the cooperation agreement (Note 2).

In 2011, following restructuring of debt to BTA Bank the Group has written-off accrued servicing fee on the BTA Bank letter of credit for the period 2008-2010 of USD 2,300 thousand included into accrued expenses as of 31 December 2010 (Note 11).

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

In thousands of USD	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Tenge	1,411	3,229	715
US Dollar	681	3,306	3,092
Euro	223	1,175	1,175
	2,315	**7,710**	**4,982**

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of cash and cash equivalents, other receivables, bank borrowings, trade and other financial payables and due to SAT.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and commodity price risk. The Group's management reviews and agrees policies for managing each of these risks which are summarised 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 does not have interest bearing financial instruments.

Foreign currency risk

As a result of trade and other financial payables 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.

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

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).

31 December 2011		
US Dollar	+19.5%	(136)
	-19.5%	136
EUR	+21.8%	43
	-21.8%	(43)
31 December 2010 (restated)		
US Dollar	+19.5%	(3,697)
	-19.5%	3,697
EUR	+21.8%	(255)
	-21.8%	255

Credit risk

The Group endeavours to trade only with recognised, 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.

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 2011						
Trade and other financial payables	2,315	–	–	–	–	2,315
Due to SAT	53	–	–	–	–	53
	2,368	**–**	**–**	**–**	**–**	**2,368**
At 31 December 2010 (restated)						
Bank borrowings	34,790	–	–	–	–	34,790
Trade and other financial payables	7,669	–	41	–	–	7,710
Due to SAT	2,205	–	–	–	–	2,205
	44,664	**–**	**41**	**–**	**–**	**44,705**

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

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	31 December 2011	31 December 2010 (restated)	31 December 2011	31 December 2010 (restated)
Financial assets				
Cash and cash equivalents	113	300	113	300
Other receivables	193	91	193	91
Financial liabilities				
Bank borrowings	–	34,790	–	34,790
Trade and other financial payables	2,315	7,710	2,315	7,710
Due to SAT	53	2,205	53	2,205

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 2011. 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 2011.

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

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 other financial receivables and cash and cash equivalents 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 and other financial payables 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 2011 the Group fully complies with Kazakhstani personnel training requirements.

Liquidation fund

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

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

As of 31 December 2011 the Group did not have such special bank account for liquidation fund as required by the subsurface use contract. The Group initiated bank deposit for liquidation fund and transferred required amount in 2012.

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 2011	Amount subject to implementation in 2012
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.

26. COMMITMENTS AND CONTINGENCIES (continued)

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.

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 1,107 thousand for environmental pollution. It is not anticipated that any further material obligation will arise from these contingent liabilities in excess of the amount already provided in these consolidated financial statements.

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.

27. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include entities under control of SAT, entities over which SAT exercises significant influence or joint control, 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.

27. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

Key management personnel comprise members of the Group's management and members of Supervisory Board, totalling five persons at 31 December 2011 (31 December 2010: four persons). Compensation to key management personnel consists of short-term employee benefits. Since the Company does not pay social securities or pensions, all salary payments are considered as short-term employee benefits. Total compensation paid to key management personnel amounted to USD 117 thousand for the year ended 31 December 2011 (31 December 2010: USD 528 thousand). There were no payments to the Non-Executive Directors in 2011 and 2010, except for those included in the table below.

In thousands of USD

Name	Position	2011	2010
Alken Kuanbay	Acting Chief Executive Officer	60	19
Azelgareyeva Ramilya	Director of Finance and Economics Department	31	83
Sarkytbaev Marat	General Director	22	224
Abuov Asylbek	Deputy General Director	4	166
Kazymov Samat	Business Development Director	–	36
Total		**117**	**528**

Advances given to SAT

During the 12 months ended 31 December 2011 the Group received the financial aid from SAT in the amount of USD 3,018 thousand (2010: USD 2,205 thousand). In 2011, payable to SAT in the amount of USD 5,170 thousand was offset against the advance to SAT under the cooperation agreement (Note 2).

Advances given to SAT as at 31 December 2011 represent the outstanding balance of advance given under the cooperation agreement with SAT (Note 2). Management of the Group expects that outstanding amount will be settled during the first half of 2012.

28. SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

- Up-front prepayment of USD 2,895 thousand to Midiel AB (Note 16) made by SAT in 2011 was transferred to the Group and offset against the advance to SAT under the cooperation agreement (Note 2).

- As disclosed in Note 21, following restructuring of the BTA Bank borrowings the Group has transferred its debt to BTA Bank of USD 30,988 thousand to SAT under the cooperation agreement (Note 2).

- As disclosed in Note 24, accounts payable to Atlas Copco Customer Finance AB for purchased property, plant and equipment of USD 3,642 thousand were accepted by SAT and offset against the advance under the cooperation agreement (Note 2).

- As disclosed in Note 27, in 2011, payable to SAT in the amount of USD 5,170 thousand was offset against the advance to SAT under the cooperation agreement (Note 2).

29. AUDITORS' REMUNERATION

In thousands of USD	**2011**	**2010**
Audit of financial statements of the Group	74	55

30. SUBSEQUENT EVENTS

On 30 January 2012, SAT completed the acquisition of an aggregate number of 4,206,664 shares of the Company from Zinc Investments I B.V., Zinc Investments II B.V. and Zinc Investments III B.V. SAT now owns approximately 98.56% of the entire issued share capital of the Company.

Company Income Statement of ShalkiyaZinc N.V.

FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of USD	**Notes**	**2011**	**2010**
Result of subsidiary after taxation	34	(50,000)	–
Other income and expenses	35	1,596	(1,363)
Net loss		**(48,404)**	**(1,363)**

Company Balance Sheet of ShalkiyaZinc N.V.

AS AT 31 DECEMBER 2011
(After proposed appropriation of results)

In thousands of USD	Notes	31 December 2011	31 December 2010
ASSETS			
Current assets			
Short-term portion of VAT receivable		–	153
Other receivables		–	29
Cash and cash equivalents		49	10
		49	**192**
TOTAL ASSETS		**49**	**192**
Shareholders' equity and liabilities			
Shareholders' equity	36		
Share capital		407	75
Share premium		111,834	62,164
Foreign currency translation reserve		769	36
Accumulated deficit		(114,109)	(64,970)
		(1,099)	**(2,695)**
Current liabilities			
Other accrued liabilities		683	2,269
Short-term loan		465	618
		1,148	**2,887**
TOTAL EQUITY AND LIABILITIES		**49**	**192**

31. 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 art. 2:362 part 8 DCC, 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) except for investments in associates and subsidiaries that 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 35 to 42.

In accordance with art. 2:402 part 9 DCC, 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 on the 9th floor of the Southern tower of Almaty towers, 280 Baizakov Str., Almaty, 050040. Tel.: (727) 259-00-43; Fax: (727) 259-62-22.

Basis of preparation

These financial statements are prepared 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.

32. RESTATEMENT OF COMPARATIVE INFORMATION

In course of preparation of the Company financial statements for the year ended 31 December 2011, management identified prior period error in the currency translation differences of the Subsidiary (Note 2 to the consolidated financial statements of the Group). An impact of restatement on the currency translation reserve was recycled into the accumulated deficit. Comparative information has been restated and adjusted.

33. LONG TERM LOAN TO THE SUBSIDIARY

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

In thousands of USD	**2011**	**2010**
Opening balance at 1 January, gross	44,109	34,098
Less: impairment loss provision	(44,109)	(34,098)
Opening balance at 1 January	–	–
Change in estimates of future cash flows	4,300	10,011
Impairment loss	(4,300)	(10,011)
Closing balance at 31 December	48,409	44,109
Less: impairment loss provision	(48,409)	(44,109)
Non-current portion	–	–

Long-term loan amount of USD 48,409 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.

34. RESULT OF SUBSIDIARY AFTER TAXATION

The investment in the Subsidiary is relating to LLP ShalkiyaZinc Ltd. 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. As of 31 December 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 was USD 64,893 thousand.

In 2011, the Company made a contribution to the charter capital of the Subsidiary of USD 50,000. As negative net asset value of the Subsidiary at 31 December 2011 exceeded the amount of contribution the Company recorded an impairment of the investment of USD 50,000 thousand. The negative net asset value of the Subsidiary at 31 December 2011 was USD 14,539 thousand.

35. OTHER INCOME AND EXPENSES

In thousands of USD	**2011**	**2010**
Income on loans	4,300	10,307
Impairment of loans and receivables	(1,998)	(9,867)
Other expenses	(673)	(2,544)
Foreign exchange loss	(33)	741
	1,596	**(1,363)**

Impairment of loans and receivables is shown net of reversal of impairment of the short-term loan to the Subsidiary repaid in 2011.

36. SHAREHOLDERS' EQUITY

In thousands of USD	Share capital	Share premium	Foreign currency translation reserve[1]	Accumulated deficit	Total
At 1 January 2010	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)**
Issuance of shares	324	49,676	–	–	50,000
Loss for the year	–	–	–	(48,404)	(48,404)
Other comprehensive loss	–	–	733	(733)	–
Revaluation of share capital	8	(6)	–	(2)	–
Balance at 31 December 2011	**407**	**111,834**	**769**	**(114,109)**	**(1,099)**

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

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

In thousands of USD	31 December 2011	31 December 2010
Equity per consolidated financial statements	35,181	(17,443)
Unrecognised losses of the Subsidiary	14,539	63,569
Impairment of the loan to the Subsidiary	(50,869)	(48,871)
Other differences	50	50
Equity per the Company financial statements	**(1,099)**	**(2,695)**

37. DIRECTORS REMUNERATION

None of directors received remuneration for their services in 2011 and 2010 respectively. The remuneration of Alken Kuanbay, 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. Alken Kuanbay is an Acting Chief Executive Officer, Ramilya Azelgereeva is the Head of Finance and Economic department, Marat Sarkytbayev has served as CEO until discharge taken effect on 19 December 2011.

38. AVERAGE NUMBER OF EMPLOYEES

As at 31 December 2011 the Company employed 114 employees (31 December 2010: 130 employees).

39. AUDITORS' REMUNERATION

For audit fees, please refer to the Note 29 of consolidated financial statements.

SHALKIYAZINC N.V. BOARDS

BOARD OF DIRECTORS

Kenges Rakishev

Rollan Mussinov

Alken Kuanbay

ON BEHALF OF THE BOARD OF DIRECTOS

Kenges Rakishev

Amsterdam

25 June 2012

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 2011 in full to the accumulated losses. This proposal has been reflected in these financial statements.

Independent Auditors' report

For the Independent Auditors' report, refer to page 24.

Directors' interest

Kenges Rakishev holds the 84.28% of the issued share capital of the Company.

Subsequent events

Reference is made to the disclosure note on page 63.